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THE Public Interest

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Ethics–
in Education, Business, and Politics

What is "Business Ethics"? — *Peter F. Drucker*

Economic Reasoning and the Ethics of Policy — *Thomas C. Schelling*

Ethos, "Ethics," and Public Service — *Mark T. Lilla*

The Conflict in Moral Education — *Martin Eger*

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Editorial Office
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Subscription Office
The Public Interest, Box 542,
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Ethos, "ethics," and public service

MARK T. LILLA

THAT the United States is a moralistic nation has, at times, been one of our greatest virtues and, at others, one of our vices. Americans have always debated politics with the moral fervor of the born-again, canonizing the politically upright and damning the unclean. The politics of the past two decades, with all its exaggerated emphasis on public wrong-doing, both foreign and domestic, is unusual in its intensity, though not in its nature.

But the moralism of recent American politics is also unusual in that, for the first time, it has become thoroughly academized. Editorial writers and Congressional committees have turned their attention from Watergate and the CIA affairs, but in the groves of academe these events live on in what may be called the "ethics in government" movement. Classes on "applied ethics" are now given to (and often required of) undergraduate and graduate students; research centers have been established (the Hastings Center in New York, the Center for Philosophy and Public Policy in Maryland); conferences are held; journals are started (*Philosophy and Public Affairs*); grants are given; and dissertations are written. Professors of philosophy, political science, public administration, and public policy have all become troops in the movement, and at a

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time when college enrollments are falling and academic departments are in financial trouble, ethics is big business.

The ethics in government movement has two distinct, but related branches. The first concerns itself with the morality of public policies themselves—the decisions to wage war, redistribute income, intervene in other nations, "restructure society," etc. This branch is interesting, if lately overwrought, and will always be part of normal American political discourse. The second branch is concerned less with the morality of political decisions than with the moral obligations of career public officials—the administrators, analysts, and legislative bureaucrats—whose job it is to serve elected officials.

A great number of middle- and upper-level career officials in the federal government (and, increasingly, state and local government) receive some sort of graduate training today, whether it is called public policy, public administration, or public management. These officials should receive a moral education along with their other studies so that they understand their duties in a democratic government and the virtues of a good public servant, and so those duties and virtues become habits. But students preparing for public service today are not receiving what can be called moral education, something akin to religious education which inculcates virtuous habits; they are learning a rather peculiar sort of philosophical discourse which allows them to make sophisticated excuses for their actions without preparing them to act responsibly in a democracy. Morality is a way of life, not a method of analysis, and by bringing abstract ethical reasoning to the study of public administration, the ethics movement helps to *create* a moral vacuum rather than fill one.

This paradox, of ethics without moral education, is a product both of recent trends in graduate education in public administration and changes in political and moral philosophy within the last decade. By confusing and compromising the purposes of both academic philosophy and public administration, the ethics movement can only hope to produce a new generation of casuists, not a revived tradition of moral public service.

The ethos of public administration

Oddly enough, the teaching of public administration in American colleges and universities was itself the result of an "ethics" movement, of sorts, at the end of the 19th century. Until this time, American government operated on the assumption that politics and

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the administration of public programs could not be separated, and that it was both the right and duty of each administration to replace incumbent government officials (from Secretaries to street-sweepers) with people loyal to the new regime. It was not only fair that the spoils belonged to the victors, it was thoroughly democratic.

Untempered democracy has its disadvantages, and it became evident near the end of the 1800's that one of those disadvantages is corrupt administration. With the wide publicity of public wrongdoing by the new "yellow press," there were attempts at all levels of government to clean up the public service. At the federal level, the bribery and patronage of the Grant Administration had led to national Republican good-government slates, the passage of the Pendleton Act in 1893, and the creation of a bipartisan Civil Service Commission.[1]

But it was at the local level that the good-government movement flourished, as it fought the corruption of the "machine" and "big city bossism." There were 84 local citizens associations in American cities by 1894, the year in which they organized themselves into the National Municipal League, an organization which, through influential surveys and comparative studies, sought to professionalize and de-politicize local administration. (The notion of an appointed city manager, for instance, was widely publicized by the League.) Soon the League and other organizations like it were training city managers in what was by then called "public administration." For the first time, the administration of public programs was separated from politics and turned into a profession.

Academic interest, mainly in political science departments, was also growing near the end of that century, with scholars such as Woodrow Wilson, Frank Goodnow, and Charles Beard writing on the new responsibilities of the unelected public servant. By 1914 colleges were offering one-year master's degrees in public administration, and in 1924 the first semi-independent school for training public officials was founded at Syracuse University.

Though ethics, as such, was not formally taught in these programs, they were based on and continued to pass along a strong sense of morality—an ethos—to their students. As a reaction to the corruption of local political machines, early public administration was founded on the notion that the world of professional administration could

[1] An excellent history of American public administration can be found in Frederick Mosher, ed., *American Public Administration: Past, Present, and Future* (University of Alabama Press, 1975).

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be distinguished from politics and that the role of the moral public administrator was to serve his political superiors responsibly by carrying out their directives and providing them with information and expertise when necessary. The public could count on a corps of trained specialists who would be above politics, in the sense that they would be uncorruptible, yet beneath it in that the democratic political process remained the legitimate source of policy and moral guidance. The old public administration ethos was, at base, democratic at a time when local government had become most undemocratic.

The world wars and the New Deal turned the attention of schools of public administration to the federal government, and the ethos adjusted to this new and complex situation. Public officials in a growing federal government were no longer merely expected to follow the clear orders of political leaders; suddenly, the administrator found himself managing relatively large programs which affected millions of people, and often with unclear guidance from Congress, the President, or the courts. Further removed from the public than in state or local government, a new generation of federal administrators found itself with a small, but growing, degree of policy discretion which had previously been held by elected political officials.

From the 1930's through the 1950's there was an extended debate within the field of public administration on how much of this discretion the career official could legitimately claim in a democratic government. One camp, led by Carl J. Friedrich, argued that government had become so complex that the political process could not be counted on to make public decisions on its own; it was up to administrators to use their expertise and the tools of science to make decisions that served the public interest. Herman Finer led the opposing camp which held that administrative responsibility in a democracy had to be based on subservience rather than "the public interest"—a chimera, he claimed—if government was to remain representative.

Rereading these old debates, one is struck with how deeply an unquestioned ethos penetrated the ideas and writings of the time. No matter how much debate there was over the nature of administrative responsibility in a democracy, there was no question but that democracy in the U.S. was itself legitimate; the only question was how the moral public official could best serve that democracy when government agencies and programs became large and complex, and administrators found themselves with discretion. Like

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Talmudic scholars, students and teachers of public administration pored over the Constitution and American legal history to find the proper interpretation of "duty" and "responsibility." That its character was so seriously debated shows that the democratic administrative ethos was alive and well.

"Public administration" becomes "public policy"

The year 1960 proved to be a turning point for the field of public administration and the democratic ethos it embodied. The rise of the "whiz-kid" in the Kennedy Administration changed the popular and academic notion of the good public official from that of the responsible, careful, and probably stodgy middle-aged man to that of the young, energetic, and ambitious Ivy-Leaguer who, with shirt-sleeves rolled high, was prepared to apply the latest "scientific" management and analytic tools to the problems of public policy. Government, then populated by timorous old bureaucrats, was to be made active and activist by an infusion of new blood and new thinking. There would be progress.

This shift in perception can be traced, I think, both to changes within the federal government and within academia. The growth of government in the 1960's, especially in social programs (after the growth in defense spending in the previous two decades) not only gave public officials more to do, it also gave them evermore discretion with which to do it (even more than after the New Deal). Regulations had to be written, analyses had to be conducted, and legislation had to be drafted, and all of these activities were undertaken within federal agencies and on Congressional staffs with limited political oversight. At the same time, the "lingo" of government was changing as academics became more involved in public policy and as social science became viewed more as a science and less as part of a humanistic understanding of the social condition. People in government and academia began using the term "policy sciences." Operations research, developed during the two world wars to rationalize planning and carry out military exercises, was now available for application to non-defense matters, and game theory, once the recreation of mathematicians and economists, was soon applied to nuclear strategic planning in the Defense Department. Professors, with their bulging analytic tool-kits in hand, overran Washington attempting to "rationalize" everything from defense procurement to government budgeting.

It was thus inevitable that professors shuttling to all the excite-

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ment in Washington would become rather bored with the staid nature of training for public administration. At a time when real social progress seemed at hand, both in government and in the social sciences, public administration programs and the ethos they embodied looked terribly out of date. So they were transformed. From Harvard to Michigan to Berkeley, programs in public administration were changed in the 1960's to graduate programs in public policy, and this change in appellation signified a great shift in what was taught and the spirit in which it was taught. No longer satisfied with teaching the fundamentals of American government, budgeting, and personnel management ("Public administration," one professor told me, "was chiefly concerned with how to set up chairs at a meeting"), public policy programs sought to keep their students abreast of the latest analytic techniques. A first-year graduate student at Harvard's Kennedy School of Government, for instance, will take full-year courses in analytic methods (a mathematical grab-bag including cost-benefit analysis), economics, statistics and econometrics, a policy analysis workshop, and political analysis and management techniques. He will learn nothing—explicitly—about democracy.

The value of this sort of training for government service is, I think, great. However one may feel about the broad responsibilities given today to federal career officials, those officials will certainly be ill-equipped to carry out their duties if they are unable to understand the language of formal analysis. (It is no different today in large corporations where chief executive officers must take minicourses in econometrics in order to keep up with their young MBAs.) Economics, statistics, and mathematical reasoning all help the official use his discretion more responsibly by building his intuition about the second and third order effects of government policies, and in this sense an education in public policy is a far superior preparation for government service than was the old public administration.

But however inadequate the old public administration was in analytic sophistication, it did embody an ethos which prepared the student, through an informal moral education, to take his place within a democratic government. Public policy has no such ethos; if it has any ethos at all it is a scientific one wherein the main virtue is efficiency. Graduate programs in public policy are simply silent about democracy, and, given the state of undergraduate education, neither can we be certain that entering students assume democratic principles. It takes no appreciation of the nuances of gov-

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erning a democracy to carry out a cost-benefit calculation, run a regression, or forecast the demand for energy in the year 2000. It is essential that these things be done, but a student who merely learns to make these calculations receives no moral guidance at all. He has discretion and can determine the most cost-effective way to achieve a particular end—but what end?

By 1970, policy analysis had come under significant criticism, but, as these things always seem to go, it was not conservatives who were the first to complain that the ethos had been lost, but the New Left which argued that policy analysts lacked any social conscience. In the late 1960's and early 1970's, public policy programs seemed to attract those intent on working for government as agents for social change. But this was a generation brought up on Marcuse, not Madison; on the Frankfurt School, not the Federalist. Convinced that *praxis* makes perfect, students flocked to public policy programs only to be disappointed when they found out that they would simply be taught analytic techniques. And the techniques themselves, it was claimed, were "biased" in favor of those in power and had led to inhumane policies at home and abroad.[2] In short, policy analysis was immoral.

Charges of immorality were something for which public policy programs were unprepared. Policy analysis was overly complex, perhaps, and may have been misapplied on occasion, but it was difficult for public policy professors and administrators to think of analysis as particularly moral or immoral. (In part, this was because they already shared the implicit democratic assumptions their students lacked. But they failed to pass on those assumptions.) The old public administration ethos at least could have answered that as long as the political process was operating properly, public officials were acting morally by following orders; but the policy analysts simply had *no* answer. So as the tone of political discourse in the early 1970's became more moralistic, public policy schools became convinced they should do *something* about ethics. But what?

Call in the ethicists

At the same time that schools of public policy were changing and sorting out questions of morality, there was a rather similar revolu-

[2] See Lawrence Tribe, "Policy Science: Analysis or Ideology?," *Philosophy and Public Affairs* Vol. II, No. 1 (1972), pp. 66-110. Even Jules Feiffer, in his short play "The White House Murders," blames policy analysis and the whiz-kids for what happened in Vietnam.

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tion—whether major or minor remains to be seen—occurring in political philosophy as taught and studied in departments of philosophy. The obituary which was written for political philosophy in the 1950's was undoubtedly premature, given the tremendous interest generated in the early 1970's by the publication of John Rawls's *A Theory of Justice* and Robert Nozick's *Anarchy, State, and Utopia.* What these books have done, really, is reestablish contemporary political philosophy as a branch of moral reasoning (which, depending on your opinion of the state of contemporary moral philosophy, may or may not be such a good thing). Rather than merely studying the history of political thought, students and scholars in philosophy departments today take the neo-Kantian and neo-Lockean political arguments of Rawls and Nozick in a serious, though entirely abstract, way.

A new sort of moral-political argument suddenly came in vogue. We have always been a moralistic nation, but seldom before have we conducted our political arguments in full academic regalia. Abstract philosophical arguments about U.S. foreign and domestic policy, human rights, economic justice, and the actions of certain public officials are now made in slick academic journals (*Philosophy and Public Affairs* is probably the best) and relatively popular books (e.g., Michael Walzer's *Just and Unjust Wars*). Some of the questions that are being argued in this mode, and taken quite seriously, are simply absurd. (Do radishes have rights? Should parents be licensed?) But this sort of moral discourse is now so pervasive that even the moral obligations of government officials, formerly consisting of the old ethos of public administration, are now discussed in the obscure and formal analytic language of the contemporary theoretical philosopher.

Ethical theory is really the furthest thing from an ethos, and it is theory construction (and destruction) which has come to dominate British and American moral philosophy in this century, and political philosophy in this past decade. The development (or demise, if you like) of British and American philosophy in this century is a complex matter, but it is not unfair to say that the legacy of logical positivism, linguistic analysis, and formal logic has been tendency towards abstract logical systems quite divorced from the lives we live. In moral philosophy, philosophers have either been absorbed in meta-ethical questions (Do we justify our moral arguments through metaphysical underpinnings or our intuitions?), or the disjunction between the good and the right. This last question roughly divides contemporary moral philosophers into "deontolo-

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gists," who argue that acts are wrong or right intrinsically, and "utilitarians" who claim that acts or social rules are right only if they produce the most happiness. While angels dance on pins, these thinkers ponder such questions as: If a group of people are hopelessly trapped in a tunnel by a fat man stuck in the opening (and they will die if they can't get out), is it right to blow the man to bits to save the group?

Philosophers probably would have been content to remain in their armchairs and seminars debating such abstract matters, were it not for the politicization of the academy and the shrinking philosophy job market of the past two decades. By politicization I mean only that professors and students have lately come to feel guilty if they are not involved in something *au courant*, and philosophers have come to feel guilty as well. The new moral-political philosophy conveniently allows the young philosopher to pursue an academic career while "committing" himself to a form of social activism. And as the number of teaching jobs shrink, "applying" this sort of work to entirely new fields—not just public policy but medicine and business as well—becomes awfully attractive for a very practical reason: There are jobs.

Out of all this emerged, in the past five years, the marriage of the new public policy schools and the new moral-political philosophers. Without an ethos to hold onto, and under attack for unethical behavior, schools of public policy decided to buy some ethics. And young moral and political philosophers, sporting a new political outlook and hungry for work, have jumped at the chance to help. In the great theater that is academe, public policy schools yelled "Is there an ethicist in the house?," and in the back row the philosophers enthusiastically responded, "You bet!"

The new casuistry

The child of this odd marriage can only be called a new form of medieval casuistry. The term that is used though is "applied ethics." (It is a sad comment on the state of contemporary moral philosophy that there is a real distinction between theoretical and applied ethics.) Applying ethics seems to mean taking a certain moral theory—rather than a commandment, as did the casuists—and seeing how it solves certain moral "dilemmas" we face in everyday life.

Getting a handle on applied ethics is a difficult thing since, by definition, it is practiced in particular cases either in class or in the occasional essay. But this past year the Hastings Center published a

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series of reports summarizing the state of ethics instruction in colleges and universities.[3] These reports give a better than adequate description of what is happening in graduate schools today, but more than that, they reveal the problems with casuistry as a form of moral education.

The most striking thing about these volumes is the sort of language which they use. Since so many of the writers and instructors in applied ethics are either philosophers or social scientists trying to dabble in philosophy, the language they use and the attitude they exhibit is a peculiar combination of the highfalutin and the pedantic. We are told that "tools" must be developed for the teaching of ethics so that students might "develop analytical skills" and thereby become "rigorous" and "systematic" in their thinking. "Ethical analysis," as it is called, can then become "helpful to decisionmakers."

It is ironic that the ethics movement in public policy schools, which was born out of a reaction against economic and mathematical analysis, should adopt the same sort of scientistic approach to moral matters. Modern philosophy, with all its analytic pretensions, is surely to blame for much of this, but the analytical mode and argot of science also gives applied ethics a strange sort of legitimacy within the public policy curriculum and the other academic disciplines. By becoming versed in different moral theories, the student can "apply" them to public policy problems, much as he would a mathematical model. And if he is lucky, he can construct a complete theory of the obligations of the public official. As the hardheaded authors of one Hastings Center report put it, "A major purpose for teaching specific courses in ethics should be to uncover hidden assumptions, unchallenged and unexamined values, and to treat the realm of morality with all of the rigor and discipline that other areas of human study and concern already receive in the university."[4]

This application of ethical theories reflects a very limited conception both of ethics and of moral education within the university. The sorts of cases to which the theories are applied are always called "dilemmas": Should the "decisionmaker" allow a dam to be built to produce electricity if it permanently destroys part of the environment? Should he leak information to the press if his superior is doing something illegal or which he considers immoral? Should he

[3] The two volumes which touch on public policy are *The Teaching of Ethics in Higher Education,* and J. L. Fleishman and B. L. Payne, *Ethical Dilemmas and the Education of Policymakers.*

[4] *The Teaching of Ethics in Higher Education,* p. 8.

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tell a lie in public or break a law to serve some higher purpose he has in mind? What would a deontologist or utilitarian say? Cases like this occur, I am sure (and the ethicists always seem to be able to dig up Watergate-like cases to ruminate), but the moral life of the public official is made up of much more than these catastrophic cases which call for immediate decisions. It is made up of a set of virtues which the official has acquired throughout his education and it reveals itself in the attitudes and habits he displays toward the political process and the public in his day-to-day work. And if the democratic virtues of the moral public official are to become habits, those virtues must be taught with some authority.

But virtue and authority are the last thing the ethicists have in mind. Once the student has become well-versed in contemporary abstract ethical theories, all the teacher is supposed to do is put forward different dilemmas which raise "interesting ethical problems," and to which the theories must be applied. Indeed, to do anything more than this would be downright unethical. In the most striking section of the Hastings Center report we are told:

> Many educators and others, we discovered, believe there is no point in teaching an ethics course unless it will assure improvement in student conduct. We have concluded that this is not an appropriate explicit goal for a course in ethics.[5]

Changing behavior, you see, would require "manipulation" and "indoctrination," and that would be wrong. The only goal, it seems, is to raise the consciousness of students so that they "recognize ethical issues," "develop analytical skills," and become "morally responsible."

This, then, constitutes the moral education of a young person ready to enter public service today. No longer a mere public administrator, he is a highly trained analyst—which is good—but instead of acquiring the habits and attitudes of the democratic administrative ethos, he reads a little theoretical moral philosophy and practices ethical analysis in an (almost) value-free environment. He is told that he is morally responsible for his own actions and that this is the first day of the rest of his life. Then he is sent to work.

Ethics vs. moral education

This may be ethics, but it is not moral education. By turning away from the way men live to higher and higher levels of abstract moral

[5] Ibid., p. 54.

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reasoning, philosophers and "ethicists" no longer teach men to be moral, and may make them less so. For philosophers today seldom see themselves engaged in the moral education of their society; they merely see themselves as intellectual housekeepers, clearing up "muddles" here and there and checking the foundation occasionally, but not really becoming part of the family. And this attempt to "apply" ethics, to turn public servants into modern casuists, is doomed to failure because those engaged in it refuse to do anything but make students feel "responsible." Moral education, it seems, is too important to be left to the philosophers.

A morality—an ethos—is something we live, and, as Stuart Hampshire has put it, "A way of life is a complicated thing." It is not merely a set of propositions to be applied with legal precision to certain cases which arise in life; it is an attitude or outlook, a set of virtues and habits which we learn, sometimes rationally but usually not, from our families, churches, peers, and even our schools. The philosopher Annette Baier, in a recent unpublished essay, put it well when she wrote that morality is a "bootstrap operation." We *become* moral just as we *become* civilized by picking up habits and ideals from our parents, by standing on the shoulders of previous generations. And this sort of morality, the anthropological kind, works because it is more than abstract reasoning; it is a way of learning virtue which is time-tested and subtly complex. As Baier puts it:

> It is an important fact about any moral beliefs which anyone has acquired from parents that they have passed at least a minimal test for viability—they are two generations old. This is more than can be said for many philosophers' moral theories . . . Whatever else an acceptable morality must be, it must be in some sense "teachable" to young children, and understandable by non-intellectuals.

Casuistry might work as a morality, I suppose, though only if one has commandments to be applied to particular cases. But students of moral philosophy or applied ethics do not learn commandments, they learn competing moral theories, any of which may be superior to the others. Who can say? If an act-utilitarian would blow up the fat man in the tunnel but the deontologist would not, what is the student to conclude? Only that he can justify his actions (especially to his teachers) if he is sophisticated in his excuse and knows which clever arguments to make. He does not learn moral habits, he learns to be shrewd. Reflecting on her years of teaching ethics, Baier concludes: "In attempting to increase moral reflectiveness we are destroying what conscience there once was in those we teach."

A concern with a moral way of life and the virtues needed to

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pursue it, rather than with abstract reasoning, is derived from Aristotle, who saw morality and moral education as the natural way in which men civilized themselves and their progeny. Except among a few contemporary philosophers—Stuart Hampshire, Michael Oakeshott, and, in his own way, Alasdair MacIntyre—this Aristotelian concern with ethos, rather than ethics, is rather unpopular.

Clearly, an ethos cannot be created rationally out of thin air, but public administration *had* an ethos, and a basically sound one, if a bit outmoded; this was abandoned when public administration became public policy and no longer saw itself essentially concerned with governing democracies. Moral education was taking place in these graduate schools, not explicitly perhaps, but implicitly as students learned what duties they had and what virtues they were to pursue as public officials in a democracy. Occasionally, a McGuffey-like reader would appear to guide students in their moral attitudes, and I am sure that they did more good than the ethics movement could ever hope to do. Paul Appleby, in one of the best early books on morality and administration, explained what underlay that ethos:

> Philosophers are not wise enough to tell us what particular decisions to make in the conduct of social business. The problems they set out to solve are intellectual and abstract, not the specific problems faced by social operators . . . Made as full-bodied as possible, their formulations still would be designed to illumine the field of action, not to relieve its captains of their responsibilities . . . We therefore beg the more general questions which philosophers ruminate; we begin by assuming democracy.[6]

Teaching administrative statesmanship

We want our public officials to act morally, to "do the right thing," and there is probably less trouble in agreeing what moral action is than in training people to act that way. In schools of public policy and public administration, then, the emphasis must be primarily on moral education in democracy rather than on moral philosophy as studied in philosophy departments. Applied ethics, as currently conceived, threatens to teach future public officials how to justify their actions with high-flown excuses without teaching them what sorts of duties and virtues make up the moral life of someone in a democratic government, and without turning that

[6] Paul H. Appleby, *Morality and Administration in Democratic Government* Louisiana State University Press, 1952), p. 28.

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understanding into habits. Indeed, at a time when students of public policy *only* acquire formal analytical skills, and when undergraduate schools are, at best, ambivalent towards democratic government, this sort of moral education in democracy is truly imperative.

But the sort of administrative ethos which existed in schools of public administration prior to 1960 is clearly inappropriate for most officials in government today. (This should not surprise us; it is in the nature of an ethos to change with circumstances.) Public administration was born out of the need to separate administration from politics and turn the public service into a corps of career officials able to carry out tasks in a thoroughly professional manner. With the emphasis on analytic training now given to students of public policy, this has been accomplished. The task for which students are now unprepared is the responsible use of the discretion with which they find themselves, especially in the federal government, and this new realm of action is profoundly moral in nature. Analysts are asked to provide information, but are given considerable discretion in framing their analyses; administrators receive their authorization from Congress, but also have the authority to write regulations and set standards; and Congressional staff members have been given so much authority and autonomy that they often act in the stead of their employers. As he moves higher in the administrative or Congressional bureaucracies, the public official today must be more statesman than mere functionary.

Preparing a public official for a career of administrative statesmanship must consist of more than the trite discussion of "moral dilemmas"—whistle-blowing, wire-tapping—it must center on the balance of virtues which officials in different positions in government must display. Those virtues are rather obvious: a respect for the law, a concept of the public interest, courage, tenacity, and prudence, to name a few. It is true that these virtues often do come into conflict, and it is through reflection on the role of certain officials in particular positions that the balances are struck. For instance, an assistant secretary of a federal agency probably has greater responsibility and authority to act on his own concept of the public interest than does an agency analyst whose analyses should be non-partisan. In an ethics class students would discuss case-studies (much as they do now), but in order to learn a way of life, not in order to apply a theory or make a generalization.

Courses or mini-courses on morality and public policy are undoubtedly a good way to reflect on and transmit an ethos, but it

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is from the attitudes and experiences of instructors, many of whom have long experience in government, that students will pick up habits as they emulate those they admire. Teachers of economics and statistics are *examples* in the way they approach public policy issues, not just instructors, and they share the burden of passing along the democratic ethos of the administrator. Michael Oakeshott's insightful analogy between moral habits and grammar captures the importance of examples.

> We acquire habits of conduct, not by constructing a way of living upon rules or precepts learned by heart and subsequently practised, but by living with people who habitually behave in a certain manner: we acquire habits of conduct in the same way as we acquire our native language.[7]

This is rather old fashioned stuff—preaching, witnessing, setting a good example for the children—and it puts an enormous amount of moral responsibility on *all* teachers, but this is the only way students can understand, in a complex way, what their roles will be in a democracy and what virtue is in those roles.

The first step to reviving an ethos of public administration is to send the philosophers home, where they have plenty of housekeeping with which to busy themselves, and to admit that moral education will take place, much as it always has, through examples and even a bit of "indoctrination" in the virtues of democracy. This gives us the best chance of producing truly moral men and women to serve in the U.S. government. About moral education C. S. Lewis wrote:

> It still remains true that no justification of virtue will enable a man to be virtuous. Without the aid of trained emotions the intellect is powerless against the animal organism. I had sooner play cards against a man who was quite sceptical about ethics, but bred to believe that 'a gentleman does not cheat,' than against an irreproachable moral philosopher who had been brought up among sharpers.[8]

And I had sooner be governed by officials bred to believe in the democratic ethos than by those weaned on "ethics."

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[7] Michael Oakeshott, *Rationalism in Politics* (New York: Basic Books, 1961), p. 62.

[8] C. S. Lewis, *The Abolition of Man* (New York: Macmillan Publishing, 1947), pp. 33-34.

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What is "business ethics"?

PETER F. DRUCKER

"Business ethics" is rapidly becoming the "in" subject, replacing yesterday's "social responsibilities." "Business ethics" is now being taught in departments of philosophy, business schools, and theological seminaries. There are countless seminars on it, speeches, articles, conferences and books, not to mention the many earnest attempts to write "business ethics" into the law. But what precisely is "business ethics"? And what could, or should, it be? Is it just another fad, and only the latest round in the hoary American blood sport of business baiting? Is there more to "business ethics" than the revivalist preacher's call to the sinner to repent? And if there is indeed something that one could call "business ethics" and could take seriously, what could it be?

Ethics is, after all, not a recent discovery. Over the centuries philosophers in their struggle with human behavior have developed different approaches to ethics, each leading to different conclusions, indeed to conflicting rules of behavior. Where does "business ethics" fit in—or does it fit in anywhere at all?

The confusion is so great—and the noise level even greater—that perhaps an attempt might be in order to sort out what "business ethics" might be, and what it might not be, in the light of the ma-

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jor approaches which philosophers have taken throughout the ages (though my only qualification for making this attempt is that I once, many years before anybody even thought of "business ethics," taught philosophy and religion, and then worked arduously on the tangled questions of "political ethics.")

Business ethics and the Western tradition

To the moralist of the Western tradition "business ethics" would make no sense. Indeed, the very term would to him be most objectionable, and reeking of moral laxity. The authorities on ethics disagreed, of course, on what constitutes the grounds of morality —whether they be divine, human nature, or the needs of society. They equally disagreed on the specific rules of ethical behavior; that sternest of moral rules, the Ten Commandments, for instance, thunders "Thou shalt not covet thy neighbor's . . . maidservant." But it says nothing about "sexual harassment" of "one's own" women employees, though it was surely just as common then as now.

All authorities of the Western tradition—from the Old Testament prophets all the way to Spinoza in the 17th century, to Kant in the 18th century, Kierkegaard in the 19th century and, in this century, the Englishman F.H. Bradley (*Ethical Studies*) or the American Edmond Cahn (*The Moral Decision*)—are, however, in complete agreement on one point: There is only one ethics, one set of rules of morality, one code, that of *individual* behavior in which the same rules apply to everyone alike.

A pagan could say, "Quod licet Jovi non licet bovi." He could thus hold that different rules of behavior apply to Jupiter from those that apply to the ox. A Jew or a Christian would have to reject such differentiation in ethics—and precisely because all experience shows that it always leads to exempting the "Jupiters," the great, powerful, and rich, from the rules which "the ox," the humble and poor, has to abide by.

The moralist of the Western tradition accepts "extenuating" and "aggravating" circumstances. He accepts that the poor widow who steals bread to feed her starving children deserves clemency and that it is a more heinous offense for the bishop to have a concubine than for the poor curate in the village. But before there can be "extenuating" or "aggravating" circumstances, there has to be an offense. And the offense is the same for rich and poor, for high and low alike—theft is theft, concubinage is concubinage. The reason for this insistence on a code that considers only the individual,

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and not his status in life or society, is precisely that otherwise the mighty, the powerful, the successful will gain exemption from the laws of ethics and morality.

The only differences between what is ethically right and ethically wrong behavior which traditional moralists, almost without exception, would accept—would indeed insist on—are differences grounded in social or cultural mores, and then only in respect to "venial" offences. That is, the way things are done rather than the substance of behavior. Even in the most licentious society, fidelity to the marriage vow is meritorious, all moralists would agree; but the sexual license of an extremely "permissive" society, say 17th century Restoration England or late 20th century America, might be considered an "extenuating circumstance" for the sexual transgressor. And even the sternest moralist has always insisted that, excepting only true "matters of conscience," practices that are of questionable morality in one place and culture might be perfectly acceptable—and indeed might be quite ethical—in another cultural surrounding. Nepotism may be considered of dubious morality in one culture, in today's United States, for instance. In other cultures, a traditional Chinese one, for example, it may be the very essence of ethical behavior, both by satisfying the moral obligation to one's family and by making disinterested service to the public a little more likely.

But—and this is the crucial point—these are qualifications to the fundamental axiom on which the Western tradition of ethics has always been based: There is only one code of ethics, that of individual behavior, for prince and pauper, for rich and poor, for the mighty and the meek alike. Ethics, in the Judaeo-Christian tradition, is the affirmation that all men and women are alike creatures —whether the Creator be called God, Nature, or Society.

And this fundamental axiom "business ethics" denies. Viewed from the mainstream of traditional ethics, "business ethics" is not ethics at all, whatever else it may be. For it asserts that acts that are not immoral or illegal if done by ordinary folk become immoral or illegal if done by "business."

One blatant example is the treatment of extortion in the current discussions of "business ethics." No one ever has had a good word to say for extortion, or has advocated paying it. But if you and I are found to have paid extortion money under threat of physical or material harm, we are not considered to have behaved immorally or illegally. The extortioner is both immoral and a criminal. If a business submits to extortion, however, current "business ethics"

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considers it to have acted unethically. There is no speech, article, book, or conference on "business ethics," for instance, which does not point an accusing finger in great indignation at Lockheed for giving in to a Japanese airline company, which extorted money as a prerequisite to considering the purchase of Lockheed's faltering L-1011 jet plane. There was very little difference between Lockheed's paying the Japanese and the pedestrian in New York's Central Park handing his wallet over to a mugger. Yet no one would consider the pedestrian to have acted "unethically."

Similarly, in Senate confirmation hearings, one of President Reagan's cabinet appointees was accused of "unethical practices" and investigated for weeks because his New Jersey construction company was alleged to have paid money to union goons under the threat of their beating up the employees, sabotaging the trucks, and vandalizing the building sites. The accusers were self-confessed labor racketeers; no one seemed to have worried about their "ethics."

One can argue that both Lockheed and the New Jersey builder were stupid to pay the holdup men. But as the old saying has it: "Stupidity is not a court martial offense." Under the new "business ethics," it does become exactly that, however. And this is not compatible with what "ethics" always were supposed to be.

The new "business ethics" also denies to business the adaptation to cultural mores which has always been considered a moral duty in the traditional approach to ethics. It is now considered "grossly unethical"—indeed it may even be a "questionable practice" if not criminal offense—for an American business operating in Japan to retain as a "counsellor" the distinguished civil servant who retires from his official position in the Japanese government. Yet the business that does not do this is considered in Japan to behave antisocially and to violate its clear ethical duties. Business taking care of retired senior civil servants, the Japanese hold, makes possible two practices they consider essential to the public interest: that a civil servant past age 45 must retire as soon as he is out-ranked by anyone younger than he; and that governmental salaries and retirement pensions—and with them the burden of the bureaucracy on the taxpayer—be kept low, with the difference between what a first-rate man gets in government service and what he might earn in private employment made up after his retirement through his "counsellor's fees." The Japanese maintain that the expectation of later on being a "counsellor" encourages a civil servant to remain incorruptible, impartial, and objective, and thus to serve only the

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public good; his counsellorships are obtained for him by his former ministry and its recommendation depends on his rating by his colleagues as a public servant. The Germans, who follow a somewhat similar practice—with senior civil servants expected to be "taken care of" through appointment as industry-association executives—share this conviction. Yet, despite the fact that both the Japanese and the German systems seem to serve their respective societies well and indeed honorably, and even despite the fact that it is considered perfectly "ethical" for American civil servants of equal rank and caliber to move into well-paid executive jobs in business and foundations and into even more lucrative law practices, the American company in Japan that abides by a practice the Japanese consider the very essence of "social responsibility," is pilloried in the present discussion of "business ethics" as a horrible example of "unethical practices."

Surely "business ethics" assumes that for some reason the ordinary rules of ethics do not apply to business. "Business ethics," in other words, is not "ethics" at all, as the term has commonly been used by Western philosophers and Western theologians. What is it then?

Casuistry: the ethics of social responsibility

"It's casuistry," the historian of Western philosophy would answer. Casuistry asserted that rulers, because of their responsibility, have to strike a balance between the ordinary demands of ethics which apply to them as individuals and their "social responsibility" to their subjects, their kingdom—or their company.

"Casuistry" was first propounded in Calvin's *Institutes*, then taken over by the Catholic theologians of the Counter-Reformation (Bellarmin, for instance, or St. Charles Borromeus) and developed into a "political ethics" by their Jesuit disciples in the 17th century.

"Casuistry" was the first attempt to think through "social responsibility" and to embed it in a set of special ethics for those in power. In this respect, "business ethics" tries to do exactly what the casuists did 300 years ago. And it must end the same way. If "business ethics" continues to be "casuistry" its speedy demise in a cloud of ill-repute can be confidently predicted.

To the Casuist the "social responsibility" inherent in being a "ruler"—that is, someone whose actions have impact on others— is by itself an ethical imperative. As such, the ruler has a duty, as Calvin first laid down, to subordinate his individual behavior and his individual conscience to the demands of his social responsibility.

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The *locus classicus* of casuistry is Henry VIII and his first marriage to Catherine of Aragon. A consummated marriage—and Catherine of Aragon had a daughter by Henry, the future "Bloody Mary"—could not be dissolved except by death, both Catholic and Protestant theologians agreed. In casuistry, however, as both Catholics and Protestants agreed, Henry VIII had an ethical duty to seek annulment of the marriage. Until his father, well within living memory, had snatched the Crown by force of arms, England had suffered a century of bloody and destructive civil war because of the lack of a legitimate male heir. Without annulment of his marriage, Henry VIII, in other words, exposed his country and its people to mortal danger, well beyond anything he could in conscience justify. The one point on which Protestants and Catholics disagreed was whether the Pope also had a social, and thereby an ethical, responsibility to grant Henry's request. By not granting it, he drove the King and his English subjects out of the Catholic Church. But had he granted the annulment, the Catholic Casuists argued, the Pope would have driven Catherine's uncle, the Holy Roman Emperor, out of the Church and into the waiting arms of an emerging Protestantism; and that would have meant that instead of assigning a few million Englishmen to heresy, perdition, and hellfire, many times more souls—all the people in all the lands controlled by the Emperor, that is, in most of Europe—could have been consigned to everlasting perdition.

This may be considered a quaint example—but only because our time measures behavior in economic rather than theological absolutes. The example illustrates what is wrong with casuistry and indeed why it must fail as an approach to ethics. In the first place casuistry must end up becoming politicized, precisely because it considers social responsibility an ethical absolute. In giving primacy to political values and goals it subordinates ethics to politics. Clearly this is the approach "business ethics" today is taking. Its very origin is in politics rather than in ethics. It expresses a belief that the responsibility which business and the business executive have, precisely because they have social impact, must determine ethics—and this is a political rather than an ethical imperative.

Equally important, the Casuist inevitably becomes the apologist for the ruler, the powerful. Casuistry starts out with the insight that the behavior of "rulers" affects more than themselves and their families. It thus starts out by making demands on the ruler—the starting point for both Calvin and his Catholic disciples in the Counter-Reformation 50 years later. It then concludes that "rulers"

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must, therefore, in conscience and ethics, subordinate their interests, including their individual morality, to their social responsibility. But this implies that the rules which decide what is ethical for ordinary people do not apply equally, if at all, to those with social responsibility. Ethics for them is instead a cost-benefit calculation involving the demands of individual conscience and the demands of position—and that means that the "rulers" are exempt from the demands of ethics, if only their behavior can be argued to confer benefits on other people. And this is precisely how "business ethics" is going.

Indeed, under Casuist's analysis the ethical violations which to most present proponents of "business ethics" appear the most heinous crimes turn out to have been practically saintly.

Take Lockheed's bribe story for instance. Lockheed was led into paying extortion money to a Japanese airline by the collapse of the supplier of the engines for its wide-bodied L-1011 passenger jet, the English Rolls Royce Company. At that time Lockheed employed some 25,000 people making L-1011's, most of them in southern California which then, 1972-73, was suffering substantial unemployment from sharp cutbacks in defense orders in the aerospace industry. To safeguard the 25,000 jobs, Lockheed got a large government subsidy. But to be able to maintain these jobs, Lockheed needed at least one large L-1011 order from one major airline. The only one among the major airlines not then committed to a competitor's plane was All-Nippon Airways in Japan. The self-interest of Lockheed Corporation and of its stockholders would clearly have demanded speedy abandonment of the L-1011. It was certain that it would never make money—and it has not made a penny yet. Jettisoning the L-1011 would immediately have boosted Lockheed's earnings, maybe doubled them. It would have immediately boosted Lockheed's share price; stock market analysts and investment bankers pleaded with the firm to get rid of the albatross. If Lockheed had abandoned the L-1011, instead of paying extortion money to the Japanese for ordering a few planes and thus keeping the project alive, the company's earnings, its stock price, and the bonuses and stock options of top management, would immediately have risen sharply. Not to have paid extortion money to the Japanese would to a Casuist, have been self-serving. To a Casuist, paying the extortion money was a duty and social responsibility to which the self-interest of the company, its shareholders and its executives had to be subordinated. It was the discharge of social responsibility of the "ruler" to keep alive the jobs of 25,000 people at a time when

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jobs in the aircraft industry in southern California were scarce indeed.

Similarly, the other great "horror story" of "business ethics" would, to the Casuist, appear as an example of "business virtue" if not of unselfish "business martyrdom." In the "electrical apparatus conspiracy" of the late 1950's, several high-ranking General Electric executives were sent to jail. They were found guilty of a criminal conspiracy in violation of antitrust because orders for heavy generating equipment, such as turbines, were parcelled out among the three electrical apparatus manufacturers in the U.S.—General Electric, Westinghouse, and Allis Chalmers. But this "criminal conspiracy" only served to reduce General Electric's sales, its profits, and the bonuses and stock options of the General Electric executives who took part in the conspiracy. Since the electric apparatus cartel was destroyed by the criminal prosecution of the General Electric executives, General Electric sales and profits in the heavy apparatus field have sharply increased, as has market penetration by the company, which now has what amounts to a near-monopoly. The purpose of the cartel—which incidentally was started under federal government pressure in the Depression years to fight unemployment—was the protection of the weakest and most dependent of the companies, Allis Chalmers (which is located in Milwaukee, a depressed and declining old industrial area). As soon as government action destroyed the cartel, Allis Chalmers had to go out of the turbine business and had to lay off several thousand people. And while there is still abundant competition in the world market for heavy electric apparatus, General Electric now enjoys such market dominance in the home market that the United States, in case of war, would not have major alternative suppliers of so critical a product as turbines.

The Casuist would agree that cartels are both illegal and considered immoral in the U.S.—although not necessarily anyplace else in the world. But he would also argue that the General Electric executive who violated U.S. law had an ethical duty to do so under the "higher law" of social responsibility to safeguard both employment in the Milwaukee area and the defense-production base of the United States.

The only thing that is surprising about these examples is that business has not yet used them to climb on the Casuist bandwagon of "business ethics." For just as almost any behavior indulged in by the 17th century ruler could be shown to be an ethical duty by the 17th century disciples of Calvin, of Bellarmin, and of Borromeus, so almost any behavior of the executive in organizations today—

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whether in a business, a hospital, a university, or a government agency—could be shown to be his ethical duty under the casuistic cost-benefit analysis between individual ethics and the demands of social responsibility. There are indeed signs aplenty that the most apolitical of "rulers," the American business executive, is waking up to the political potential of "business ethics." Some of the advertisements which large companies—Mobil Oil, for example—are now running to counter the attacks made on them in the name of "social responsibility" and "business ethics," clearly use the casuist approach to defend business, and indeed to counterattack. But if "business ethics" becomes a tool to defend as "ethical" acts on the part of executives that would be condemned if committed by anyone else, the present proponents of "business ethics," like their Casuist predecessors 400 years ago, will have no one to blame but themselves.

Casuistry started out as high morality. In the end, its ethics came to be summed up in two well-known pieces of cynicism: "An ambassador is an honest man, lying abroad for the good of his country," went a well-known 18th century pun. And a hundred years later, Bismarck said, "What a scoundrel a minister would be if, in his own private life, he did half the things he has a duty to do to be true to his oath of office."

Long before that, however, casuistry had been killed off by moral revulsion. Its most lasting memory perhaps are the reactions to it which re-established ethics in the West as a universal system, binding the individual regardless of station, function, or "social responsibility": Spinoza's *Ethics*, and the *Provincial Letters* of his contemporary, Blaise Pascal. But also—and this is a lesson that might be pondered by today's proponents of "business ethics," so many of whom are clergymen—it was their embracing casuistry that made the Jesuits hated and despised, made "Jesuitical" a synonym of "immoral," and led to the Jesuit order being suppressed by the Pope in the 18th century. And it is casuistry, more than anything else, that has caused the anticlericalism of the intellectuals in Catholic Europe.

"Business ethics" undoubtedly is a close parallel to casuistry. Its origin is political, as was that of casuistry. Its basic thesis, that ethics for the ruler, and especially for the business executive, has to express "social responsibility" is exactly the starting point of the Casuist. But if "business ethics" is casuistry, then it will not last long—and long before it dies, it will have become a tool of the business executive to justify what for other people would be un-

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ethical behavior, rather than a tool to restrain the business executive and to impose tight ethical limits on business.

The ethics of prudence and self-development

There is one other major tradition of ethics in the West, the Ethics of Prudence. It goes all the way back to Aristotle and his enthronement of Prudence as a cardinal virtue. It continued for almost 2,000 years in the popular literary tradition of the "Education of the Christian Prince," which reached its ultimate triumph and its reduction to absurdity in Machiavelli's *Prince*. Its spirit can best be summed up by the advice which then-Senator Harry Truman gave to an Army witness before his committee in the early years of World War II: "Generals should never do anything that needs to be explained to a Senate Committee—there is nothing one can explain to a Senate Committee."

"Generals," whether the organization is an army, a corporation, or a university, are highly visible. They must expect their behavior to be seen, scrutinized, analyzed, discussed, and questioned. Prudence thus demands that they shun actions that cannot easily be understood, explained, or justified. But "Generals," being visible, are also examples. They are "leaders" by their very position and visibility. Their only choice is whether their example leads others to right action or to wrong action. Their only choice is between direction and misdirection, between leadership and misleadership. They thus have an ethical obligation to give the example of right behavior and to avoid giving the example of wrong behavior.

The Ethics of Prudence do not spell out what "right" behavior is. They assume that what is wrong behavior is clear enough—and if there is any doubt, it is "questionable" and to be avoided. Prudence makes it an ethical duty for the leader to exemplify the precepts of ethics in his own behavior.

And by following Prudence, everyone regardless of status becomes a "leader," a "superior man" and will "fulfill himself," to use the contemporary idiom. One becomes the "superior man" by avoiding any act which would make one the kind of person one does not want to be, does not respect, does not accept as superior. "If you don't want to see a pimp when you look in the shaving mirror in the morning, don't hire call girls the night before to entertain congressmen, customers, or salesmen." On any other basis, hiring call girls may be condemned as vulgar and tasteless, and may be shunned as something fastidious people do not do. It may be

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frowned upon as uncouth. It may even be illegal. But only in Prudence is it ethically relevant. This is what Kierkegaard, the sternest moralist of the 19th century, meant when he said that aesthetics is the true ethics.

The Ethics of Prudence can easily degenerate. Concern with what one can justify becomes, only too easily, concern with appearances —Machiavelli was by no means the first to point out that in a "Prince," that is, in someone in authority and high visibility, appearances may matter more than substance. The Ethics of Prudence thus easily decay into the hypocrisy of "public relations." Leadership through right example easily degenerates into the sham of "charisma" and into a cloak for misdirection and misleadership—it is always the Hitlers and the Stalins who are the "great charismatic leaders." And fulfilment through self-development into a "superior person"—what Kierkegaard called "becoming a Christian"—may turn either into the smugness of the Pharisee who thanks God that he is not like other people, or into self-indulgence instead of self-discipline, moral sloth instead of self-respect, and into saying "I like," rather than "I know."

Yet, despite these degenerative tendencies, the Ethics of Prudence is surely appropriate to a society of organizations. Of course, it will not be "business ethics"—it makes absolutely no difference in the Ethics of Prudence whether the executive is a general in the Army, a bureau chief in the Treasury Department in Washington, a senator, a judge, a senior vice president in a bank, or a hospital administrator. But a "society of organizations" is a society in which an extraordinarily large number of people are in positions of high visibility, if only within one organization. They enjoy this visibility not, like the "Christian Prince," by virtue of birth, nor by virtue of wealth—that is, not because they are "personages." They are "functionaries" and important only through their responsibility to take right action. But this is exactly what the Ethics of Prudence are all about.

Similarly, executives set examples, whatever the organization. They "set the tone," "create the spirit," "decide the values" for an organization and for the people in it. They lead or mislead, in other words. And they have no choice but to do one or the other. Above all, the ethics or aesthetics of self-development would seem to be tailor-made for the specific dilemma of the executive in the modern organization. By himself he is a nobody and indeed anonymous. A week after he has retired and has left that big corner office on the twenty-sixth floor of his company's skyscraper or the Secretary's

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six-room corner suite on Constitution Avenue, no one in the building even recognizes him anymore. And his neighbors in the pleasant suburb in which he lives in a comfortable middle-class house—very different from anything one might call a "palace"—only know that "Joe works someplace on Park Avenue" or "does something in the government." Yet collectively these anonymous executives are the "leaders" in a modern society. Their function demands the self-discipline and the self-respect of the "superior man." To live up to the performance expectations society makes upon them, they have to strive for self-fulfillment rather than be content with lackadaisical mediocrity. Yet at the pinnacle of their career and success, they are still cogs in an organization and easily replaceable. And this is exactly what self-fulfillment in ethics, the Kierkegaardian "becoming a Christian," concerns itself with: how to become the "superior man," important and autonomous, without being a "big shot" let alone a "Prince".

One would therefore expect the discussion of "business ethics" to focus on the Ethics of Prudence. Some of the words, such as to "fulfill oneself," indeed sound the same, though they mean something quite different. But by and large, the discussion of "business ethics," even if more sensibly concerning itself with the "ethics of organization," will have nothing to do with prudence.

The reason is clearly that the Ethics of Prudence are the ethics of authority. And while today's discussion of "business ethics" (or of the ethics of university administration, of hospital administration, or of government) clamors for responsibility, it rejects out of hand any "authority" and, of course, particularly any authority of the business executive. Authority is not "legitimate"; it is "elitism." But there can be no responsibility where authority is denied. To deny it is not "anarchism" nor "radicalism," let alone "socialism". In a child, it is called a temper tantrum.

The ethics of interdependence

Casuistry was so thoroughly discredited that the only mention of it to be found in most textbooks on the history of philosophy is in connection with its ultimate adversaries—Spinoza and Pascal. Indeed, only 10 or 15 years ago, few if any philosophers would have thought it possible for anything like "business ethics" to emerge. "Particularist ethics," a set of ethics that postulates that this or that group is different in its ethical responsibilities from everyone else, would have been considered doomed forever by the failure of

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casuistry. Ethics, almost anyone in the West would have considered axiomatic, would surely always be ethics of the individual and independent of rank and station.

But there is another, non-Western ethics that is situational. It is the most successful and most durable ethics of them all: the Confucian ethics of interdependence.

Confucian ethics elegantly sidesteps the trap into which the Casuists fell; it is a universal ethics, in which the same rules and imperatives of behavior hold for every individual. There is no "social responsibility" overriding individual conscience, no cost-benefit calculation, no greater good or higher measure than the individual and his behavior, and altogether no casuistry. In the Confucian ethics, the rules are the same for all. But there are different general rules, according to the five basic relationships of interdependence, which for the Confucian embrace the totality of individual interactions in civil society: superior and subordinate (or master and servant); father and child; husband and wife; oldest brother and sibling; friend and friend. Right behavior—what in the English translation of Confucian ethics is usually called "sincerity"*—is that individual behavior which is truly appropriate to the specific relationship of mutual dependence because it optimizes benefits for both parties. Other behavior is "insincere" and therefore wrong behavior and unethical. It creates dissonance instead of harmony, exploitation instead of benefits, manipulation instead of trust.

An example of the Confucian approach to the ethical problems discussed under the heading of "business ethics" would be "sexual harrassment." To the Confucian it is clearly unethical behavior because it injects power into a relationship that is based on function. This makes it exploitation. That this "insincere,"—that is, grossly unethical—behavior on the part of a superior takes place within a business or any other kind of organization, is basically irrelevant. The master/servant or superior/subordinate relationship is one between individuals. Hence, the Confucian would make no distinction between a general manager forcing his secretary into sexual intercourse and Mr. Samuel Pepys, England's famous 17th century di-

* No word has caused more misunderstanding in East/West relations than "sincerity." To a Westerner, "sincerity" means "words that are true to conviction and feelings"; to an Easterner, "sincerity" means "actions that are appropriate to a specific relationship and make it harmonious and of optimum mutual benefit." For the Westerner, "sincerity" has to do with intentions, that is, with morality; to the Easterner, "sincerity" has to do with behavior, that is, with ethics.

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arist, forcing his wife's maids to submit to his amorous advances. It would not even make much difference to the Confucian that today's secretary can, as a rule, quit without suffering more than inconvenience if she does not want to submit, whereas the poor wretches in Mrs. Pepys' employ ended up as prostitutes, either because they did not submit and were fired and out on the street, or because they did submit and were fired when they got pregnant. Nor would the Confucian see much difference between a corporation vice-president engaging in "sexual harrassment" and a college professor seducing coeds with implied promises to raise their grades.

And finally, it would be immaterial to the Confucian that the particular "insincerity" involves sexual relations. The superior would be equally guilty of grossly unethical behavior and violation of fundamental rules of conduct if, as a good many of the proponents of "business ethics" ardently advocate, he were to set himself up as a mental therapist for his subordinates and help them to "adjust." No matter how benevolent his intentions, this is equally incompatible with the integrity of the superior/subordinate relationship. It equally abuses rank based on function and imposes power. It is therefore exploitation whether done because of lust for power or manipulation or done out of benevolence—either way it is unethical and destructive. Both sexual relations and the healer/patient relationship must be free of rank to be effective, harmonious, and ethically correct. They are constructive only as "friend to friend" or as "husband to wife" relations, in which differences in function confer no rank whatever.

This example makes it clear, I would say, that virtually all the concerns of "business ethics," indeed almost everything "business ethics" considers a problem, have to do with relationship of interdependence, whether that between the organization and the employee, the manufacturer and the customer, the hospital and the patient, the university and the student, and so on.

Looking at the ethics of interdependence immediately resolves the conundrum which confounds the present discussion of "business ethics": What difference does it make whether a certain act or behavior takes place in a "business," in a "non-profit organization," or outside any organization at all? The answer is clear: None at all. Indeed the questions that are so hotly debated in today's discussion of "business ethics," such as whether changing a hospital from "nonprofit" to "proprietary and for profit" will affect either its behavior or the ethics pertaining to it, the most cursory exposure to

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the ethics of interdependence reveals as sophistry and as non-questions.

The ethics of interdependence thus does address itself to the question which "business ethics" tries to tackle. But today's discussion, explicity or implicity, denies the basic insight from which the ethics of interdependence starts and to which it owes its strength and durability: It denies *interdependence.*

The ethics of interdependence, as Confucian philosophers first codified it shortly after their Master's death in 479 B.C., considers illegitimate and unethical the injection of power into human relationships. It asserts that interdependence demands equality of obligations. Children owe obedience and respect to their parents. Parents, in turn, owe affection, sustenance and, yes, respect, to their children. For every paragon of filial piety in Confucian hagiology, such as the dutiful daughter, there is a paragon of parental sacrifice, such as the loving father who sacrificed his brilliant career at the court to the care of his five children and their demands on his time and attention. For every minister who risks his job, if not his life, by fearlessly correcting an Emperor guilty of violating harmony, there is an Emperor laying down his life rather than throw a loyal minister to the political wolves.

In the ethics of interdependence there are only "obligations," and all obligations are mutual obligations. Harmony and trust—that is, interdependence—require that each side be obligated to provide what the other side needs to achieve its goals and to fulfill itself.

But in today's American—and European—discussion of "business ethics," ethics means that one side has obligations and the other side has rights, if not "entitlements." This is not compatible with the ethics of interdependence and indeed with any ethics at all. It is the politics of power, and indeed the politics of naked exploitation and repression. And within the context of interdependence the "exploiters" and the "oppressors" are not the "bosses," but the ones who assert their "rights" rather than accept mutual obligation, and with it, equality. To "redress the balance" in a relationship of interdependence—or at least so the ethics of interdependence would insist—demands not pitting power against power or right against right, but matching obligation to obligation.

To illustrate: Today's "ethics of organization" debate pays great attention to the duty to be a "whistle-blower" and to the protection of the "whistle-blower" against retaliation or suppression by his boss or by his organization. This sounds high-minded. Surely, the subordinate has a right, if not indeed a duty, to bring to public

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attention and remedial action his superior's misdeeds, let alone violation of the law on the part of a superior or of his employing organization. But in the context of the ethics of interdependence, "whistle-blowing" is ethically quite ambiguous. To be sure, there are misdeeds of the superior or of the employing organization which so grossly violate propriety and laws that the subordinate (or the friend, or the child, or even the wife) cannot remain silent. This is, after all, what the word "felony" implies; one becomes a partner to a felony and criminally liable by not reporting, and thus "compounding" it. But otherwise? It is not primarily that to encourage "whistle-blowing" corrodes the bond of trust that ties the superior to the subordinate. Encouraging the "whistle-blower" must make the subordinate lose his trust in the superior's willingness and ability to "protect his people." They simply are no longer "his people" and become potential enemies or political pawns. And in the end, encouraging and indeed even permitting "whistle-blowers" always makes the weaker one—that is, the subordinate—powerless against the unscrupulous superior, simply because the superior no longer can recognize or meet his obligation to the subordinate.

"Whistle-blowing," after all, is simply another word for "informing." And perhaps it is not quite irrelevant that the only societies in Western history that encouraged informers were bloody and infamous tyrannies—Tiberius and Nero in Rome, the Inquisition in the Spain of Philip II, the French Terror, and Stalin. It may also be no accident that Mao, when he tried to establish dictatorship in China, organized "whistle-blowing" on a massive scale. For under "whistle-blowing," under the regime of the "informer," no mutual trust, no interdependencies, and no ethics are possible. And Mao only followed history's first "totalitarians," the "Legalists" of the Third Century B.C., who suppressed Confucius and burned his books because he had taught ethics and had rejected the absolutism of political power.

The limits of mutual obligation are indeed a central and difficult issue in the ethics of interdependencies. But to start out, as the advocates of "whistle-blowing" do, with the assumption that there are only rights on one side, makes any ethics impossible. And if the fundamental problem of ethics is the behavior in relations of interdependence, then obligations have to be mutual and have to be equal for both sides. Indeed, in a relationship of interdependence it is the mutuality of obligation that creates true equality, regardless of differences in rank, wealth, or power.

Today's discussion of "business ethics" stridently denies this. It

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tends to assert that in relations of interdependence one side has all the duties and the other one all the rights. But this is the assertion of the Legalist, the assertion of the totalitarians who shortly end up by denying all ethics. It must also mean that ethics becomes the tool of the powerful. If a set of ethics is one-sided, then the rules are written by those that have the position, the power, the wealth. If interdependence is not equality of obligations, it becomes domination.

Looking at "business ethics" as an ethics of interdependence reveals an additional and equally serious problem—indeed a *more* serious problem.

Can an ethics of interdependence be anything more than ethics for individuals? The Confucians said "no"—a main reason why Mao outlawed them. For the Confucian—but also for the philosopher of the Western tradition—only *law* can handle the rights and objections of collectives. *Ethics* is always a matter of the person.

But is this adequate for a "society of organizations" such as ours? This may be the central question for the philosopher of modern society, in which access to livelihood, career and achievement exist primarily in and through organizations—and especially for the highly-educated person for whom opportunities outside of organization are very scarce indeed. In such a society, both the society and the individual increasingly depend on the performance, as well as the "sincerity," of organizations.

But in today's discussion of "business ethics" it is not even seen that there is a problem.

"Ethical chic" or ethics

"Business ethics," this discussion should have made clear, is to ethics what soft porn is to the Platonic Eros; soft porn too talks of something it calls "love." And insofar as "business ethics" comes even close to ethics, it comes close to casuistry and will, predictably, end up as a fig leaf for the shameless and as special pleading for the powerful and the wealthy.

Clearly, one major element of the peculiar stew that goes by the name of "business ethics" is plain old-fashioned hostility to business and to economic activity altogether—one of the oldest of American traditions and perhaps the only still-potent ingredient in the Puritan heritage. Otherwise, we would not even talk of "business ethics." There is no warrant in any ethics to consider one major sphere of activity as having its own ethical problems, let alone its own

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"ethics." "Business" or "economic activity" may have special political or legal dimensions as in "business and government," to cite the title of a once-popular college course, or as in the antitrust laws. And "business ethics" may be good politics or good electioneering. But that is all. For ethics deals with the right actions of individuals. And then it surely makes no difference whether the setting is a community hospital, with the actors a nursing supervisor and the "consumer" a patient, or whether the setting is National Universal General Corporation, the actors a quality control manager, and the consumer the buyer of a bicycle.

But one explanation for the popularity of "business ethics" is surely also the human frailty of which Pascal accused the Casuists of his day: the lust for power and prominence of a clerisy sworn to humility. "Business ethics" is fashionable, and provides speeches at conferences, lecture fees, consulting assignments, and lots of publicity. And surely "business ethics," with its tales of wrongdoing in high places, caters also to the age-old enjoyment of "society" gossip and to the prurience which—it was, I believe, Rabelais who said it—makes it fornication when a peasant has a toss in the hay and romance when the prince does it.

Altogether, "business ethics" might well be called "ethical chic" rather than ethics—and indeed might be considered more a media event than philosophy or morals.

But this discussion of the major approaches to ethics and of their concerns surely also shows that ethics has as much to say to the individual in our society of organizations as they ever had to say to the individual in earlier societies. They are just as important and just as needed nowadays. And they surely require hard and serious work.

A society of organizations is a society of interdependence. The specific relationship which the Confucian philosopher postulated as universal and basic may not be adequate, or even appropriate, to modern society and to the ethical problems within the modern organization and between the modern organization and its clients, customers, and constituents. But the fundamental concepts surely are. Indeed, if there ever is a viable "ethics of organization," it will almost certainly have to adopt the key concepts which have made Confucian ethics both durable and effective:

—clear definition of the fundamental relationships;

—universal and general rules of conduct—that is, rules that are binding on any one person or organization, according to its rules, function, and relationships;

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—focus on right behavior rather than on avoiding wrongdoing, and on behavior rather than on motives or intentions; and finally,

—an effective organization ethic, indeed an organization ethic that deserves to be seriously considered as "ethics," will have to define right behavior as the behavior which optimizes each party's benefits and thus makes the relationship harmonious, constructive, and mutually beneficial.

But a society of organizations is also a society in which a great many people are unimportant and indeed anonymous by themselves, yet are highly visible, and matter as "leaders" in society. And thus it is a society that must stress the Ethics of Prudence and self-development. It must expect its managers, executives, and professionals to demand of themselves that they shun behavior they would not respect in others, and instead practice behavior appropriate to the sort of person they would want to see "in the mirror in the morning."

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Economic reasoning and the ethics of policy

THOMAS C. SCHELLING

POLICY judgments are easier to come by, the farther we are from our goals. If there are only two directions and we know which is forward, and there are limits to how fast we can go, no fine discrimination is needed. If aid to the poor is far too little, highway traffic far too fast, building codes far too lax, teachers' salaries far too low, or the rights of defendants far too little observed, we know what we need to know to get moving. We can worry about how much is enough when we get close, if we ever do. Meanwhile we can push on.

Knowing what to do is also easy if our capabilities are growing and our horizons receding, and yesterday's goals will be outgrown tomorrow. Like a family on a rising income, we needn't worry about overshooting: If we buy too big a house today, we'll afford it tomorrow.

I have often been glad that I wasn't in charge. It is easy enough to see plainly that there is too much inequality (or illiteracy, or ill health, or injustice) and to help to reduce it, knowing that despite all efforts too much will remain. But if it were up to me to decide *how much* inequality is not much, or how much injustice, or how much disregard for the elderly or for future generations, I'd need more than a sense of direction.

Discomfort also arises when, intent on speeding toward an ever-receding goal, the goal suddenly stops receding and we threaten

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to overshoot. There appears to be a widespread belief that overshoot is what we've done.

Worse, there is retrospective disenchantment with the mood that motivated the effort and set the goals in the first place back in the 1960's. There is chagrin at having been too enthusiastic about what could be accomplished. There is disaffection toward those whose demands are insatiable and gratitude inconspicuous. Whatever the reason, there is a re-examination of policy, especially policy that reflects social obligation. There is retrenchment in the air and on the ballot, and second thoughts about what we can afford for ourselves and what we owe others.

It isn't all sour grapes. Our projection of the possible has shrunk. Our economy isn't behaving. Growing income no longer promises to make light of our burdens in another decade or two. We do not know what has been depressing our productivity and can't be sure that, whatever it is, we shall recover soon. Inflation has a mind of its own. The demographics of the labor force are against us and at the same time the rules of the game allow endless numbers of people from far away places, once over the line, to touch base and be safe. And there is angry reaction to the behavior of fuel prices.

So it is not surprising that commitments are being reassessed, "tradeoffs" discussed, costs weighed anew against benefits, and even constitutional initiatives promoted to enforce a policy of containment. Techniques of policy analysis that recently were despised as mean spirited and stingy by people who preferred to base policy on vision and generosity are being superseded by what used to be called meat-axes and strait-jackets.

These are not "hard times" in the old sense. In this country life is still good and getting better for most people. But it isn't measuring up to expectations. They might better be called "difficult times": It is the problems, not the times, that are hard. And among the hard issues are some ethical ones. They may not be the hardest or the most important, but they are important and they are hard.

I have been asked how economic reasoning can help, or how it misleads, in facing, solving, or avoiding the ethical components of policy. Does economic reasoning itself represent a particular ethic; or, if not the reasoning, the people who use it?

The ethics of policy

What I mean by the ethics of policy is the relevant ethics when we try to think *disinterestedly* about rent control, minimum wages,

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Medicaid, food stamps, safety regulations, cigarette taxes, or the financing of Social Security.

Farmers have an interest in price supports, laundry operators in minimum-wage laws, doctors in the financing of Medicare, and electric utilities in clean-air regulation, and until my youngest child is safely overage I shall have a personal interest in the draft. When people take sides on a leash law we don't expect them to argue it the way they discuss the space shuttle. I want to define the ethics of policy as what we try to bring to bear on *those issues in which we do not have a personal stake.*

It is hard to find issues that are absolutely clean of personal interest. On abortion and capital punishment, our personal ethics usually dominate. Food stamps affect us whether we qualify or not because they cost money. Someone meticulously interested in his own welfare could find at least a minuscule personal interest in a U.N. program for alphabet reform.

Still, most of us on many issues want to think and to talk as though we are not interested parties. We want to discuss welfare and national defense and school construction and unemployment benefits and automobile mileage standards and the financing of Medicare as though we were not personally involved. There will be an unmistakable element of social obligation; nobody can discuss income-tax rates or welfare levels without a participatory awareness that the poor, the unfortunate, the disadvantaged, and the otherwise deserving have some legitimate claim on those among us who can afford to help. But while few issues are without financial impact somewhere, and most big issues involve big amounts of money, we can often confine our personal stake to an aggregate and nonspecific social obligation. Our position in the income scale affects our conditioning as well as our reasoning, but beyond that we can try to be neutral, removed, vicarious, impartial, judicious.

Incidentally, I say this only because I expect this journal to be read by a special set of people. Most people probably devote most of their policy interest to the things that concern themselves and do it with a clear conscience. They do not get drawn into ethical abstractions. They may have strong ethical views on a limited number of subjects that do not flow from their stake in the outcome, but on matters called "bread and butter" they accept the ethic that in politics it is fair to look out for your own interest, expecting others to look out for theirs. Many of us in academic environments, though, try to take distributive issues seriously but not personally. Students rebelling against higher tuition are reluctant to say it is to save their

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own money; they join the picket line in behalf of somebody poorer. And professors concerned to protect their *own* salaries are thought not to be playing the ethical game, but the tobacco farmer concerned solely with his own family's welfare is excused from scholarly disinterest.

The ethics of pricing

My students always like gasoline rationing. They believe in it on ethical principles. (They say they do, and they sound as if they do.) Evidently the principles lie deeper than rationing itself; the students must have some notion of what happens with rationing and without it, or with some specific alternative, and they must have a preference about the outcome. Students know that there are gainers and losers; their ethics appear to relate to who gains, who loses, and how much.

I can talk most of them out of it. It takes longer than 50 minutes, and I never try it if I have only a single class hour. They probably distrust my ethical principles and think I do not care about what they care about, or care as much. They very likely think my ethics are "process oriented" and the free market enchants me, while they are "consequences oriented" and don't like the results.

Time permitting, I accomplish their conversion in two stages. I warn them in advance that I am going to show them that if they like rationing there is something they should like better. I join them in believing the free market needn't be let alone, but I do propose what is sometimes called "rationing by the purse." I suggest we let the price of gasoline rise until there is no shortage, and capture the price increase with a tax. Because that looks hard on the poor my students do not like it.

The first step in subverting their ethical preference is to propose that under any system of rationing that they might devise—and I take a little while to show them that it is not easy to design a "fair" system of rations—people should be encouraged to buy and sell ration coupons. This proposal has little appeal. The rich will obviously burn more than their share of gas, the poor being coerced by their very poverty into releasing coupons for the money they so desperately need. But eventually students recognize that the poor, *because* they are poor, would like the privilege of turning their coupons into money. Where gas coupons can only provide them gas at a discount, transferable coupons can buy milk at a discount. If it is unfair that the poor cannot drive as much as the rich, it is the poverty that is unfair, not the gasoline system.

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That principle established, we observe that coupons are worth cash, whether you buy them, sell them, or merely turn in your own at the local service station. If gas at the pump is $1.25 and coupons sell for 75 cents, the net price of gasoline is $2.00; anyone who gets ten gallons' worth of coupons from the Department of Energy is getting a clumsy equivalent of $7.50 cash. The station that sells ten gallons receives $12.50 in money and $7.50 in coupons that could have been traded for cash. What we have is a 75-cent tax payable at the pump in special money, and a cash disbursement to motorists paid in this special money. We could just as well do it all without the coupons.

There is more to it than that, but the "more" usually doesn't involve much ethics. It isn't that we resolved an ethical issue. We merely lifted the veil of money and discovered that the ethical issue we thought was there was not. Or, perhaps better, the ethical issue that we associated with rationing was tangential to that procedure. Whatever the compensatory principle is that appeals to the students' sense of fairness, there are many procedures that can achieve it, some better than others, rationing neither worst nor best; and once it is all converted to money it is easier to see what some of the alternatives are and whether they are ethically superior. Superficially it may seem wrong to give gas coupons to people who don't drive; but if the gasoline is taxed instead and the proceeds rebated to the public, we can judge the ethics of alternative distributions of the proceeds, not just those based on drivers' licenses and car registrations.

Persuasion is a little harder with rent control, partly because students don't like landlords. We try to see whether there might be something better, even in principle; whether people seeking apartments are losers under rent control; whether some non-evictable tenants in rent-controlled apartments would like to cash in their precious property right but are locked in because their claim is to a specific apartment. Usually by the time we have identified all the interested parties and the likely magnitudes of their interests, and have considered a few alternative ways to accomplish the things rent control is intended to accomplish, the liveliness of the issue is undiminished but the ethical loading has mostly evaporated.

I dislike "counting coup" over vanquished students in order to display, and to hope you are impressed with, some of the ways that economics can contribute to the clarification of ethical issues. But at least the claim for economics is modest: It often helps diagnose misplaced identification of an ethical issue. And it does it solely by

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helping to identify what is happening. It isn't clarifying ethics, it is only clarifying economics.

Let me give a few more examples. Minimum wage laws are thought to have ethical content; but if their main effect, or even their purpose, is to keep the young and the old and the otherwise least valuable employees from working at all, the ethical issues may not be what the proponents thought they were. Making utilities pay the full cost of smoke abatement seems eminently fair unless the costs are borne by consumers of electricity and the clean air enjoyed by whoever lives downwind, in which case we may want to know who lives downwind and who buys the electricity, the utility company not having much interest in the matter. (Even if the electricity is procured mainly by business, we don't know yet who's paying until we know who buys the products, or who will settle for lower wages when the other costs rise.) Even our feelings about people who evade the income tax by not declaring tips or typing fees or truck garden sales will depend on whether the system merely lowers wages and prices in bars and restaurants and reduces the cost of lettuce or of getting theses typed.

The point of all this is not that I am smarter than my students or that you should let me handle rent control for you. It is that whatever I know as an economist that can help, in the analysis of interacting behaviors in the market and in identifying where the ethical issues are, I can probably communicate it if you have an hour or two. You needn't just take my word on it, and you needn't think it inaccessible.

The clash between equity and incentives

Policy issues are preponderantly concerned with helping, in compensatory fashion, the unfortunate and the disadvantaged. We have welfare for those who can't work, unemployment benefits for people out of jobs, disability benefits for the disabled, hospital care for the injured and the ill, disaster relief for the victims of floods, income tax relief for the victims of accidental loss, and rescue services for people who find themselves in danger. Social Security is based on the premise that people will arrive at post-working age with inadequate savings to live on.

An unsympathetic way to restate this is that a preponderance of government policies have the purpose of rewarding people who get into difficulty. People are paid handsomely for losing their jobs; if you smash your car the IRS will share the cost of a new one; and if

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your injury requires hospitalization you can stay in an air-conditioned room as long as the doctor certifies that you will recover better if you don't go home. By treating the absence of a "man in the house" as a special grievance for a woman with dependent children, families have even received a bonus for fathers leaving home.

There is no getting away from it. Almost any compensatory program directed toward a condition over which people have any kind of control, even remote and probabilistic control, provides some inducement to get into that condition. It reduces the incentive to stay out of it. And it detracts from the urgency of getting out of it. It is a rare ameliorative program that has no visible way, by its influence on behavior, to affect the likelihood or the duration or the severity of the circumstances it is intended to ameliorate. And most commonly—not always but most commonly—the effect on behavior is undesired and in the wrong direction.

To keep the issue in perspective we can observe that private insurance, even the informal kind that allows us to ask for help when we run out of gas, can have the same adverse influence on behavior. People more willingly drive on slippery roads the more nearly complete their collision coverage; back doors are unlocked if the homeowner's policy is liberal in its provisions for burglary. I am more indulgent of my sore throat if my employer provides an ample quota of sick days.

There is no use denying it in defense of social programs. As is usually the case with important issues, principles conflict. On the one hand we want to treat unemployment as a collective liability, sustaining the family at public expense when working members lose their livelihoods. And on the other we want not to induce people to get conveniently disemployed or to feel no need when unemployed to seek work vigorously. What helps toward one objective hurts toward the other. Offering 90 percent of normal pay can make unemployment irresistible for some and even a net profit for those who can moonlight or work around the home. Providing only 40 percent over a protracted period makes living harsher than we want it to be. There is nothing to do but compromise. But a compromise that makes unemployment a grave hardship for some makes it a pleasant respite for others, and we cannot even be comfortable with the compromise.

Decent welfare in a high-income state is bound to be at a higher level than in a low-income state. It induces migration. Even if we favor migration, the state that finds more and more migrants on its welfare rolls did not intend to reduce the poverty of other states by

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helping any and all who could get up and move. But to provide an unattractive level of benefits would condemn the intended beneficiaries to a level of living below what their home state wanted to provide them. Again two principles conflict.

There are exceptions to this tendency of inducing the wrong behavior. Federal deposit insurance was designed in the 1930's to provide restitution to people whose bank deposits were lost; by generating confidence, the insurance reduced precisely the behavior that caused the problem. And a benefit strictly related to age in years, though it may reduce efforts to save, at least can have no effect on the speed with which people grow older. But the tendency is pervasive. It accounts for a good part of the escalation of medical costs.

I do not know whether one of the principles, helping the disadvantaged, should be considered ethical and the other, not letting them get away with it, not ethical. Much of the discussion about welfare rights, about not proportioning medical care to the ability to pay, and about not producing a "work ethic" by threatening the unemployed with their families' starvation, is in an ethical mode. To a lesser extent, ethical considerations are evoked over the encouragement of malingering, rewarding those who beat the system, or inducing dependence on the state. Once it is recognized, however, that two principles conflict, that two desiderata point in opposite directions and neither is so overwhelming that the other can be ignored, that both objectives have merit, and even that there *is* no ideal compromise because there is a diversified population at risk, the ethical contents of the principles begin to seem tangential to the inescapable problem of locating an acceptable compromise.

It is a universal problem. It won't go away. It can't be neglected. It isn't even unique to *public* policy. The word "compromise" has those two different meanings. Compromising *a* principle sounds wrong. Compromising *between* principles is all right.

Valuing the priceless

Among the poignant issues that policy has to face, explicitly or by default, are some that seem to pit finite cost against infinite value. What is it worth to save a life? How much to spend on fair trial to protect the innocent against false verdicts? What limits to put on the measures, some costly in money and some in anguish, to extend the lives of people who will die soon anyway or whose lives, in someone's judgment, are not worth preserving?

These issues are ubiquitous. They arise in designing a national

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health program. They are directly involved in decisions for traffic lights, airport safety, medical research, fire and Coast Guard protection, and the safety of government employees. They are implicitly involved in regulation for occupational safety or safe water supplies, in building codes and speed laws, even helmets for motorcyclists because somebody has to pay the costs.

It is characteristic of policy makers, especially at the federal level, that they usually think of themselves as making decisions that affect others, not themselves. Hurricane and tornado warnings are for those living where hurricanes and tornados strike; mine safety is a responsibility of legislators and officials aboveground concerning the lives of people who work underground. Policies toward the senile, the comatose, the paralyzed and the terminally ill are deliberated by people who are none of the above. Occasionally the legislator debating a 55-mile speed limit pauses to think whether the benefits in safety to his own family will be worth the added driving time, but if he or she is conscientious even that calculation may be surreptitious.

The situation is different when a small community considers a mobile cardiac unit or a new fire truck. The question then is not what we ought to spend to save someone else's life but what we can afford to make *our* lives safer. Spending or stinting on the lives of others invites moral contemplation; budgeting my expenditures for my own benefit, alone or with neighbors for the school safety program, is less a moral judgment than a consumer choice, a weighing of some reduction in risk against the other things that money will buy.

There is a suggestion here. Maybe we can reduce the unmanageable moral content of that paternalistic decision at the national level by making it more genuinely vicarious. Instead of asking what society's obligation to *them* is, we should ask how *they* would want *us* to spend *their* money. In deciding how much to require people to spend on their own seat belts, smoke alarms, fire extinguishers, and lightning rods, it is easier to be vicarious and it is legitimate to get our bearings by reflecting on how much we might reasonably spend on our own safety. The question still may not be easy, but it is less morally intimidating.

Surely, if we were all similarly at risk and in like economic circumstances, this would be the way to look at it, whether for the town bandstand or the town ambulance. On a national scale it is less transparently so, but nevertheless so, that we should want our appropriations committees to think of themselves as spending our

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money in our behalf. We want them neither to skimp where it really counts nor to go overboard to prepare at great expense—our expense—for the remotest of dangers. We want them to be thinking not about what concern the government owes its citizens for their safety but how much of our own money we taxpayers want spent for our safety.

With that perspective it is remarkable how quickly the issue, now *collectively self-regarding* instead of other-regarding, drops the ethical content that was merely a construct of the initial formulation. We can still find ethical issues, but not the one that seemed so central.

We could call this the contractual approach to social obligation. In the absence of an understanding, I may owe you, in your extremity, unbounded attention and concern, comfort and livelihood, room and board, and the best medical attention in perpetuity, and feel guilty when I stop to wonder whether you are worth the burden you are putting on me. When it's my turn, of course, I'll expect the same from you (or from whoever has the corresponding responsibility toward me that I had toward you), feeling a little guilty perhaps but not enough to relinquish my claim. But if we could sit down together at an early age in good health and legislate our relation to each other, specifying the entitlements we wished to obtain between us, recognizing equal likelihood of being beneficiaries or benefactors, we could elect to eschew exorbitant claims. And it wouldn't strike us as an ethical issue.

The contractual approach can help with some of those other tantalizing dilemmas, like which planeload of passengers to save, the big plane with lots of passengers or the one with mostly empty seats, if both are at risk and one at most can be saved. What I should do in the control tower if that God-like decision were mine is an ethical dilemma that, for some thoughtful people, has no easy answer. But if I am merely an airline passenger answering a questionnaire for the FAA on what rule I want the control tower to follow in emergencies, the issue is neither ethical nor a dilemma.

I cheated a little in supposing that we were all similarly situated with respect to some risk and alike in our ability to afford protective measures. We usually aren't. But the value of this conceptual approach, of considering what the safety is worth to the people who are safer, may still be salvaged. If you are more at risk than I—let's say you are at risk and I am not at all—and the rule is that we share the cost of reducing the risk and we are purely self-regarding, I shall find the measures worth nothing while you find the measures

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twice as attractive as if you had to pay it all yourself. If you fly a plane and I don't, the new runway lights at the local airport will cost us each a thousand dollars and may be worth it to you but not to me. If they are worth more than $2,000 to you they ought to be bought, at least if you'll pay for them. (Whether I ought to pay half is a separable issue.) But suppose you wouldn't pay more than $1,500 for the slight contribution the runway lights make to your safety. I propose that they shouldn't be bought.

Even though we divide on the issue of whether, paying a thousand dollars apiece, we ought to buy the lights, the economist in me formulates the problem this way: If, because your personal safety is involved, you are entitled to my contributing a thousand dollars to the purchase of runway lights, and I acknowledged your claim and put up my thousand dollars for your exclusive benefit, do you really want to buy the runway lights or would you rather take my thousand and keep it? I don't care. I may be annoyed at having to put up the money when you don't want the lights after all, but I might be more annoyed that you are spending my thousand dollars on something that you didn't consider worth the cost. In fact, we could both be better off if instead of purchasing the lights I just gave you $750 and we forgot the lights.

For some among us that may not settle the issue. But I propose that it is nevertheless a useful perspective, a relevant consideration, and although other considerations are relevant too they may not be ethical ones, or if they are they are not the ethical question of whether our little two-person society put too low a value on *your* life in deciding not to buy the runway lights. (*You* may have put too low a value on your life, but I don't know why I should feel guilty about that. You may also need better lighting in your driveway.)

A harder question is what to do if you are poor and I am rich, and you use a cheap little airport and I use a better equipped one, and better runway lights are now available, and they are to be provided, if provided at all, out of a common fund for airport safety. If the lights will make as much difference to safety at your airport as at mine, and someone raises the question whether we should afford the same expensive life-saving apparatus at your cheap airport as at my more lavish one, we really come up against the question—is your life worth as much as mine? (Leave aside the possibility that there are more of you to benefit from your lights, or fewer of you, compared with the traffic at my airport.)

Let's face the question. If you are poor and I am rich is your life

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worth less than mine? "Worth" refers here to how much might properly be spent to protect it from some specified risk. (Notice that "worth" is an arithmetical construct: If we are willing to spend $2,000 per capita, but not more than $2,000, to protect everybody from something that is fatal for one person in 500, we shall spend an average of one million dollars per life saved. In that respect and only in that respect have we "valued" each life at one million dollars.) And when we ask what your life is worth, or what my life is worth, and whether your life is worth less than my life, it helps greatly in straightening out what we have in mind if we ask, *worth to whom?* And, *who's to pay it?*

If you are poorer than I, it is likely that *your* life is worth less to *you* in *your* money than *my* life is worth to *me* in *mine*. You cannot afford to pay as much for anything, including personal safety, as I can, precisely because you are poorer.

We expect the poor to invest less in home or auto safety than the well-to-do, because these goods are purchased at the expense of more urgent necessities. We expect a poor town to spend less on fire protection than a well-to-do town, because the poor town can afford less taxes and needs schools and streets as well as fire engines. But does this mean that a government air-safety program might properly decline to provide you those new runway lights while my airport gets them at government expense?

The economist in me wants to say "yes." The policy adviser in me will go only as far as "maybe" or "it depends." It depends on who is ultimately putting up the money, and it depends on what the alternative is if you don't get the lights.

The affirmative argument contains something worth knowing. It runs as follows, in stages.

First, if the users of each runway had to pay for all the facilities at that runway, including safety facilities, we might find that the lower-income users of your airport didn't consider the marginal addition to safety contributed by the new lights to be worth the money, while the well-to-do people at my airport considered the lights a good bargain. We may have feelings just like yours about life and death; but the expenditures we forego to pay for our lights are less important to us than if we were as poor as you. So one shouldn't be surprised to find that our airport gets the lights and yours does not.

If now (stage two) a federal safety authority were to consider requiring those new lights, the lights still to be paid for by each airport's users, to require you to buy the lights they would have to believe that you had made a mistake. Assuming that you knew the

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cost of the lights, they would have to assume either that you didn't know how much the lights would reduce the risks of landing and takeoff, or that you didn't know how to weigh your own safety against your own money. But notice that they would have to believe that you had made a mistake from your *own* point of view; and if they can ascertain that you did understand how much reduction in risk the lights would provide, they must now think that you undervalue your own life or overvalue the other things you have to buy out of your income. Maybe you do; but you may not see why federal air-safety authorities should have a better idea than you do of what your money is worth to you. You might reasonably protest the requirement that you equip your airport at your own expense with those expensive runway lights.

Now (stage three) let the authorities dispose of funds with which to provide safety equipment, including those new lights. They offer them to your airport at public expense. You may refuse them; but they will be free and, although they are worth less to you than what they cost, they are better than the old lights. Is the best outcome that you be provided those lights at public expense?

I try to teach my students when asked a question like that to ask in return, *what is the alternative?* If the alternative is tax reduction—your taxes—you are really paying for these lights, paying taxes while receiving the lights "free." You might elect lower taxes, a smaller public air-safety budget, and the old lights.

But maybe, being poor, you pay much less in taxes than we do who fly in and out of the other airport. If you decline the lights you will save *us* most of the cost. Your share of the cost, in the taxes you would save, may be less than what the lights are worth to you. Now should you take the lights with a clear conscience?

There is one more alternative. This is the final stage of my argument. If the air-safety authorities give you the price of the lights and do not oblige you to spend it on lights—or if they give you the lights and you can sell them to somebody and keep the cash—you will probably choose the money. And I don't care. I'd rather have the money, the lower taxes, but if you are entitled to the money and would rather have money than lights, I'll get no satisfaction out of making you buy the lights. Maybe you will compromise, and settle for a little less in money than the lights would have cost, and save me a little in taxes.

I think that is a powerful argument in favor of the proposition that a government might properly spend less per capita to save the lives of poor people than to save the lives of people who are well-

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to-do. But notice that it is *not* an *unconditional* argument. It is only an argument that there is a better way to use the money—a better way from the perspective of the poor.

It is not a decisive argument. In some contexts it may be no help in resolving the issue. If the money is available only for those lights, and you cannot have the money to spend as you prefer, if it is available only for air safety and not for reduced airport noise or better schools, if we who pay the taxes will respond to your appeal for comparable airport safety but will *not* give you other services or the equivalent in a reduction of your taxes—then your alternative to more runway safety is only less runway safety. The above line of reasoning will not help *you* get something *better* than runway lights.

But these qualifications, important as they are and decisive as they often will be, are more like political constraints on programming for safety than the ethical issue that initially seemed to arise in the question, should the lives of the poor as a matter of policy get less protection than the lives of the rich? Still, when a plane crashes at that airport with the obsolete lights we may find it hard to explain to our children why that little airport on the other side of the tracks was of less apparent concern to the safety authorities than our own airport. The authorities may have trouble explaining it to their children, too. There still are ethical issues, if not quite the one we first perceived.

The "something better" approach

What the reader will have noticed both with gas rationing and with airport safety is a technique that economics commonly employs in addressing whether a particular condition or policy or program has virtue. That technique is to explore whether, in respect of alternative outcomes or consequences, some alternative policy or condition or program technique is "better." And "better" has a particular definition: superior, as an outcome, for *everyone* involved or, somewhat less ambitiously, for all the identifiable interests. Of gasoline rationing we explore whether there is something better, something that meets whatever objectives rationing was supposed to fulfill and does a little more besides, or meets some of them more amply, or achieves the same results at lower costs to someone concerned. To find something better does not necessarily mean that rationing is not among the better policies, only that it is still inferior to some identifiable alternative. Sometimes, but not always, it is possible to measure or estimate a lower or upper bound to the mag-

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nitude of the superiority. And sometimes if an alternative is better for not quite everybody and disadvantageous to some, we can find a way to estimate the extent of disadvantage, or put an upper bound on it.

The example of runway lights illustrates precisely what this reasoning accomplishes and some of its limitations. It is concerned only with *outcomes,* not with appearances, not with processes. Most important, the reasoning does not demonstrate that the superior policy or program technique is actually achievable. In particular it may depend on institutions that do not exist, or politics that are unacceptable, or administrative determinations that are infeasible. I doubt whether many readers will be any more convinced than I am of the wisdom of publicly providing inferior airport safety at the airport utilized by lower-income passengers and crews, even though in principle a deal could be struck according to which they obtained instead something (money, for example) worth more to them in their own judgment than the uneconomically modest improvement in runway safety.

To explore the example further, I conjecture that if airport safety were a municipal rather than a federal responsibility we would not expect the same investment in life-saving facilities at municipal airports used mainly by low income people as we would expect at airports frequented by business executives and wealthier tourists. We might not feel obliged to tax the passengers at the wealthier airports and transfer the proceeds to the less favored cities. We might even expect people in search of economy fares to fly in and out of the less well-protected airports, taking advantages of lower fares reflecting lower airport fees reflecting lower-cost ground equipment. And if it were then proposed that the federal budget should subsidize ground equipment at the poorer municipal airports, there would appear competing claimants to argue that more good could be done or more lives could be saved by programs for nutrition, pest control, toxic waste disposal, or police and medical care downtown instead of runway lights out at the airport.

Let me close this part of the discussion by reiterating with emphasis two points. First, this line of reasoning attempts, when honestly done, to reshuffle the consequences by rearranging proposed programs and comparing alternatives, leaving intact the original weighting system by which the outcomes for different people, or different interests, were to be evaluated. It explores alternative consequences, assessing those consequences from the points of view of all the affected parties, to see whether, whatever the proposal is or

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the situation being evaluated, there is "something better." It is therefore of limited, but genuine, usefulness. And the second point is that there is no mystery, nothing that cannot be penetrated by a responsible policy maker, one who is willing to make some effort to discover whether indeed there is something better.

Unfortunately, economists use the term "efficiency" (or the more esoteric "Pareto-optimality") to describe this process, and often distinguish between considerations of "equity" and "efficiency." The word "efficiency" sounds more like engineering than human satisfaction, and if I tell you that it is not "efficient" to put the best runway lights at the poorer airport you are likely to think you know exactly what I mean and not like it, perhaps also not liking me. If I tell you that "not efficient" merely means that I can think of something better—something potentially better from the points of view of all parties concerned—you can at least be excused for wondering why I use "efficient" in such an unaccustomed way. The only explanation I can think of is that economists talk mainly to each other.

Escaping the dilemma of equity and efficiency

Among the most divisive issues that policy deals with is the distribution of income and wealth. Taxation and tariffs, welfare and food stamps, rent control, farm price supports, the regulation of natural gas, minimum wage laws, public housing, Social Security and its financing, electric rate regulation, and laws about labor relations and collective bargaining are mainly about the *distribution of income*. At least, controversies over those policies are controversies about the gains and costs to the farmers and the urban consumers and the unemployed and the landlords and the chronically ill and the healthy and the well-to-do. *Freedom* is an issue, but often what is fought over is freedom to pursue profit or livelihood. *Rights* are an issue, but they are often rights to welfare, rights to work, rights to life-preserving medical attention, and the right to persist in a threatened occupation like fishing or farming, or the right to compete for jobs and markets.

Capital punishment, abortion, and preventive detention are issues that divide us and are not primarily concerned with the distribution of income. But even these are loaded with distributional significance; recently it has been abortions at public expense, more than the right to procure an abortion, that has dominated policy, while capital punishment and the rights of defendants involve pro-

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cedures that may be suspect precisely because they discriminate by income.

Ethics aside, we expect controversy along lines of economic interest. The auto industry wants protection against foreign automobiles, the steel industry against foreign steel, and the meat industry against foreign beef, and we expect both business and labor to couch their self-serving arguments in the most captivating moral terms they can think of, and their political adversaries to do likewise. But for those among us who want to affect a disinterested stance and to judge right and wrong by reference to the public interest, with special concern for the ethical implications of particular policies or the overall distribution of income, what help can we get from economics?

On the relative virtues of different distributions of income, or on how much money a poor person has to get to justify an intervention that denies a dollar to somebody who isn't poor, the answer is "not much." True to the somewhat ethically evasive character that I have been imputing to economics, economic reasoning is better at helping to choose among ways to accomplish a distributional objective than at helping to choose objectives. It can help in minimizing the cost to the rich of doing something for the poor. And in case that doesn't interest you, economic reasoning can help to point out that it ought to! There is more for the poor, at any given cost to the rich, if you do it in the least wasteful way. And often the way economics does this is simply by looking at two things at the same time.

Economics is often like a broker or mediator in a bargaining process, good at promoting "integrative bargaining." Integrative bargaining is searching for superior trades, finding ways to bring to the bargaining table those things that matter more to the beneficiary of a concession than to the party making the concession. If your coffee break costs me as much as an expanded medical program that you would rather have, trading coffee for medicine may make us both better off. But it requires bringing both topics to the table together.

Let me illustrate with another tantalizing proposition that I put to my students, who reject it, and to whom I then make it palatable by dealing with it in two dimensions rather than one. The income tax allows you to subtract, in going from gross income to taxable income, $1,000 per child. It allows it whether the child is an infant or a teenager, whether you have six or only one, and—what I want to focus on—whether your income is $20,000 or $120,000 per year.

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The question is, if at $20,000 per year $1,000 is allowed for each child, at $120,000 should the deduction still be $1,000? Let me propose, as I do to my students, that the figure ought to be larger than $1,000 per child at the higher income.

One way to make the case is that high-income families spend much more on children and the "cost" of raising their children is much more. There are counter-arguments. One is that the children of the rich are already so privileged that they don't need tax privileges, too, compared with poor children; it should not be official policy that rich children enjoy several thousand dollars of family income while poor children get along on $1,000. Another is that although the rich children indeed "cost" more than the poor and there is no need to begrudge them their superior life and environment, there is also no reason why taxpayers should collectively support well-to-do families with many children; there are other worthy causes that deserve tax relief more. It can also be argued that some wealthy couples like nice automobiles and expensive homes, some like pets, and some like children; and whether or not we approve of those who choose to spend their money on children, we needn't share the cost with them, especially if we ourselves are not wealthy like them.

That is not an easy argument for my side to win. But to set the stage I point out an anomaly. The tax schedule that the Congress legislates is in two parts. First there is a schedule of taxes for a married couple without children; then there is a formula to adjust for family size. It is this family-size formula that allows the invariant $1,000 per child. To increase that allowance for the well-to-do would lower the taxes for well-to-do families with children, and reduce the total taxes paid by the well-to-do. But the Congress could just as well have legislated a tax schedule not for the childless couple but for the "typical" family, say a family with two children or three. Then the basic schedule needs an adjustment, because families without children can afford to pay more income tax. A "childless premium" might be attached; that could be done either by cancelling some other deductions and exemptions, say $1,000 worth for the family that had one child and $2,000 for the family with no children, or by adding "virtual income" to the basic income in arriving at taxable income. Question: In raising the taxable income of the childless couple, compared with the base-rate family with two or three children, do we *add* the same amount of taxable income to the family with only $20,000 as we add to the family with $120,000?

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Evidently the family earning $20,000 can pay somewhat more taxes if it has no children than if it has two or three, but not a lot more; the childless couple with $60,000 or $120,000 appears able to pay a good deal more. Just sending a child to college can cost $5,000 or $10,000 per year. If the object is to get all the taxes we can from the well-to-do families, once we have screwed the taxes as tightly as we can on families with three children, there ought to be a lot more still to be squeezed out of that childless couple living on $60,000 or $120,000 a year. It looks as though the adjustment for childlessness should be much larger for the family that has three or six times $20,000.

But that is simply the mathematical contradiction of the principle we worked out a moment ago! We originally found it difficult to argue that the taxable-income difference should be larger for the rich family than for the poor; now we find that the taxable-income difference ought to be larger for the rich family than for the poor. Since the same income tax can be formulated either as a base schedule for the childless couple with an adjustment for children, or as a base schedule for the family with children plus an adjustment for childlessness, it should not make any difference which way we do it. But by merely reformulating the same income tax we seem to have arrived at the opposite conclusion.

The students work it out by themselves if I give them a little time, but my pedagogical interest is not in the tax treatment of children in different families but in the proposition that two dimensions give you more freedom than one. So I resolve the issue for them.

We have a two-dimensional tax schedule. One dimension is income, the other is family size. We can manipulate them independently. True, with any given income schedule a larger deduction for children at high income levels reduces the taxes paid by the rich. If *your* ways and means subcommittee first sets the basic schedule for childless families and *my* subcommittee gets only to determine the size of the deduction for children, there is no way that I can enlarge the child differential at high incomes without merely forgiving some wealthy families some taxes. But if my subcommittee goes first, and we determine larger differentials for high-income families with children, you can set as progressive a schedule as you please, making sure that the rich pay the same amount of taxes you would have wanted them to pay if my subcommittee had treated children quite differently. Together we can have as wide a child-differential as we please at high income levels with-

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out providing any average tax advantage to the rich, by designing the schedule so that the *childless rich* pay more than they would have if the child differential were small.

In two dimensions we can have it both ways. We adjust the child differentials to conform to our notions *at each income level* of what difference children ought to make to the taxes paid at that income. And we design the basic income-tax schedule so that, compared with the poor, the well-to-do pay whatever we want them to pay. The income dimension and the family-size dimension allow us to meet both objectives.

The test of my success is not whether I have changed the minds of the students and they can go propose over lunch that the children of the rich should receive larger income tax deductions, and proceed to persuade their incredulous luncheon partners. The test is whether on the next issue that arises, like energy pricing, they understand the principle well enough to see how it applies there.

And how is that? Well, *that* is that rising energy prices during a time when energy costs are going up and shortages are becoming common, do two things. They induce an "efficient" (sic!) response to the rising cost of energy. And they impose an income loss on consumers, a loss that may be quite disproportionate in its distribution, perhaps especially affecting the poor or at least the poor who live in cold climates or depend on transportation.

By an "efficient" response I mean (a) that people will use less fuel because it costs more in the other things that money will buy, (b) that those who have stronger needs for fuel will pay for more and burn it while those who have less urgent needs will save their money for other things, and (c) that the supply of fuels will be enhanced from sources that were not economical at lower prices, or through new technologies that are economical now that fuel savings are worth more. (Whether this is the same or a different use of the term, "efficient," is a little intricate and we needn't resolve it here.)

If the decision is whether to let the price of fuel go up or instead to impose price control, to subsidize imports, or to reduce demand by denying specific uses, we have a dilemma. We have what in the jargon is sometimes called a "trade-off." We can hurt the poor (and many others in all kinds of special categories that are especially dependent on fuel) by making them spend more for the fuel they need with less left over for other necessities, or we can spare them that hardship while pricing fuel in a way that encourages waste and discourages conservation and new supplies. Here we are again

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weighing "equity" against "efficiency." An inescapable dilemma? Nothing to do but compromise, with strongly divided interests in compromising between the energy-efficient end of the scale and the hardship-minimizing end?

To the rescue we bring the two-dimensional approach. We have two problems. We can call them the energy problem and the poverty problem. They may turn out to be an efficiency problem and an equity problem, but our object is to avoid that. Like a Supreme Court that shies from constitutional questions if it can settle a case on other merits, we try to resolve the competing claims of poverty and energy without choosing sides between equity and efficiency. The way we do this is to recognize that, although we have two objectives or criteria or competing claims, we also have two sets of instruments for coping. We have an energy problem and a poverty problem; we have an energy program and a poverty program. With two programs to work with, and two objectives to meet, we may be able to evade the ethical dilemma.

All we need technically is a way to identify the poor (and the otherwise deserving) who would suffer severely with higher fuel prices, estimate what they would lose in the higher prices, and give them an income subsidy. Not easy, but not terribly difficult. No program is perfect in targeting help to *all* of those and *only* those who are intended to receive it. But compared with holding down the price of natural gas—while fending off all the customers who want cheap gas but cannot be accommodated, and discouraging exploration for new supply, letting rich and poor alike enjoy the cheap gas as long as they are among those lucky enough to be old customers, with the rich getting proportionately more benefit because, being rich, they can buy more of everything including gas—a combination of higher gas prices and a separate compensatory program targeted on the not-rich, or on the poor, or on the very poor, can easily be a superior policy.

It will be opposed, of course, by those who benefit from cheap fuel who could not put forward a legitimate claim under a poverty program.

It will also be opposed by the poor or their representatives if they have learned by experience that the principle of splitting the problem into two parts is sometimes an excuse for relieving the one part from responsibility for what happens to the poor while neglecting the second part that was supposed to take care of them. (Indeed, having separate Congressional committees deal with energy pricing and with programs that compensate the poor makes it ap-

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pear that if the energy committee doesn't protect the poor there is no assurance that another committee will.)

But again we may have transformed an ethical problem into a political problem.

We may also have run up against another ethical problem. This one didn't reveal itself in the original formulation. If we have money to compensate the poor, why compensate only the poor who are worse off on account of the rising prices of fuel? Specifically, suppose we put a 50-cent tax on gasoline and dedicate a fraction of the proceeds to offsetting the cost increases to families whose income is below the bottom quartile. As a way to buy off the poor's opposition to the tax, concentrating assistance on those and only those whose poverty will be aggravated by the tax can be shrewd politics. But once we have the tax and a source of revenue to help the poor in proportions determined by their dependence on fuel, somebody will propose that there are people in the bottom 10 percent who were *already* poorer, before the tax, than a lot of low-income people after the tax. The family with $8,000 that has burned eight gallons of gasoline per week stands to lose $200 a year from the 50-cent tax and fall to $7,800 while the elderly couple that has no car and lives on $6,000 qualifies for no gasoline bonus. The poor family that paints its modest home and finds the cost of paint up $200 might prefer that the gas tax revenue help all the disadvantaged, *not only those who burn gasoline.*

This looks like an ethical issue, and not the one we started with. It reflects our political system. Our system recognizes that there are some poor and otherwise disadvantaged and deserving people who should receive help. But instead of dealing with their needs in a unified way, deciding how much we want to help, we tend to help the poor a little in each of many different and uncoordinated things we do. We help with food stamps and medical care and subsidized housing, and we invoke hardship in programs to keep farm prices up and rents down. This piecemeal approach does not necessarily do a bad job, but it does create repeatedly that ethical dilemma that arose out of our compensatory programs for gasoline and heating fuel.

If a family loses its rent-controlled apartment, because rent controls are eliminated or because the apartment is eliminated, and if taxes are raised on all rental apartments and some of the proceeds set aside to help the disadvantaged, do we help only those disadvantaged by loss of rent-controlled apartments? Or do we help whoever is most in need of help?

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The market ethic

Nothing distinguishes economists from other people as much as a belief in the market system, or what some call the free market. A perennial difficulty in dealing with economics and policy is the inability of people who are not economists, and some who are, to ascertain how much of an economist's confidence in the way markets work is faith and how much is analysis and observation. How much is due to the economist's observing the way markets work and judging actual *outcomes,* and how much is a belief that the *process* is right and just? (Or right, if occasionally unjust; or right, and justice is indeterminate.)

The problem is compounded because some economists do identify markets with freedom of choice, or construe markets as processes that yield returns to individuals that are commensurate with their deserts. A conclusion that arises in the analysis of a perfectly working competitive market is that people who work for hire are paid amounts equivalent to their marginal contributions to the total product, "marginal" referring to the difference it makes "at the margin" if one's contribution is withdrawn while the rest of the system continues. An ethical question is whether one's marginal product constitutes an appropriate rate of remuneration. Critics of the theory, however, typically direct their energies toward the empirical issue, arguing that actual markets work differently. Nevertheless, there are economists who have given considerable thought to the matter who find that a system that distributes the fruits of economic activity in accordance with marginal contributions, be they contributions in effort or ideas or property, is ethically attractive, and others who have given considerable thought to it and find that such a system has great practical merit but little ethical claim. Most of these others believe there is a need for policies to readjust the results.

There is even an important socialist school of market economics, pioneered by Abba Lerner and Oscar Lange in the 1930's, that asserts that pricing in a socialist economy should mimic the pricing of a perfectly competitive free market, that such an economy would be least wasteful of resources, and that extra-market income transfers should compensate for any results that one doesn't like.

And there is a large body of professional opinion among economists, perhaps more among older than among younger ones, to the effect that markets left to themselves may turn in a pretty poor performance, but not nearly as poor when left alone as when tinkered with, especially when the tinkering is simplistically done or

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done cleverly to disguise the size and distribution of the costs or losses associated with some "innocuous" favoritism.

Whether or not an economist shares the ethic or the ideology that values the working of the market system for its own sake (or that identifies it not only *with* personal freedom but *as* personal freedom), most professional economists accept certain principles that others, if not the economists themselves, would recognize to have ethical content.

An example is incentives. Economists see economic incentives operating everywhere; they find nothing offensive or "coercive" about the responses of people to economic opportunities and sanctions; they have no interest in overcoming or opposing incentives for the sake of victory over an enemy, and they have a predilection toward tilting incentives and augmenting and dampening and restructuring incentives and even inventing incentives, to induce people to behave in ways that are collectively more rewarding or less frustrating. You can usually tell an economist from a non-economist by asking whether at the peak season for tourism and camping there should be substantial entrance fees at the campgrounds of national parks.

A related touchstone of market economics is the idea that most people are better at spending their own money than somebody else is at spending it for them. Sometimes this is directly elevated into an ethical principle: the consumer's right to make his own mistakes. But usually it is simply that giving a poor family a shopping cart filled from the shelves of a supermarket is not as good as giving them the money and the cart and letting them do their own shopping. The idea is that *they* will get more for *your* money if *they* get to spend it. A given amount of your money will do more good for the family from the family's point of view if it is spent the way they want it spent.

Economists have a long checklist of exceptions to this principle, exceptions from the point of view of that family's welfare and from other points of view, but generally the economist thinks the burden of proof belongs on those who want to give food stamps or subway tokens or eyeglasses to the poor and the elderly, not money. Proof may not be hard to come by; but the burden, for most economists, should be on those who don't trust the efficacy of money. It often sounds like an ethical principle. Maybe it is.

There have recently been proposals to compensate poor families in cash for the exact amount by which their heating bills, at deregulated prices, exceed what the same amount of fuel would have

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cost at regulated prices. The question was raised why they shouldn't merely receive, unconditionally, an amount of money estimated in advance by that formula. The retort was that, being poor, they couldn't be trusted to spend the money on heating fuel. They might spend it on something else!

This is the point at which most economists can only shake their heads slowly.

CONTRIBUTORS

We should like to thank the Alfred P. Sloan Foundation, whose generous support made possible the publication of our symposium on ethics.... MARK T. LILLA is Assistant Managing Editor of *The Public Interest*.... PETER DRUCKER is Clarke Professor of Social Science and Management at Claremont Graduate School and Professor Emeritus of Management at the Graduate Business School at New York University.... THOMAS C. SCHELLING is Professor of Political Economy at the John F. Kennedy School of Government at Harvard University. His article was originally presented as a paper at the Hastings Center at a meeting supported by a grant from the Rockefeller Foundation. A revised version will appear in *Ethics in Hard Times,* Arthur Caplan and Daniel Callahan, eds., Plenum Press, forthcoming.... MARTIN EGER is Associate Professor at the City University of New York, College of Staten Island, where he teaches physics and philosophy and has participated in teacher education programs.... ANDREW OLDENQUIST, Professor of Philosophy at Ohio State University, is currently working on a book called *The Non-Suicidal Society*.... BYRON E. SHAFER is a resident scholar at the Russell Sage Foundation.... ROBERT J. GORDON is Professor of Economics at Northwestern University.

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The conflict in moral education: An informal case study

MARTIN EGER

Some years ago, the State of New York released a publication setting forth ten "educational goals" to guide designers of programs and courses. The fifth goal on this list reads as follows:

> Competence in the processes of developing values—particularly the formation of spiritual, ethical, religious, and moral values. . . . [The resposibility of the] school: a. knowledge of the diversity of values, b. skill in making value-based choices. . . .[1]

Three words are remarkable in the above formulation: "competence," "skill," and "process." To elucidate, even in a small way, what these terms may mean within today's culture requires a long story—and we have one; but the words are significant also in a more direct sense.

"Skill" and "competence" are associated with such matters as carpentry, language, and mathematics. They hint at a science or craft, suggesting authority, implicitly relating themselves to proven methods or facts. When social support for moral values seems to be crumbling, new sources of authority are naturally welcomed, especially science.

For the uninitiated, however, there is a serious problem here, because science deals with what *is* or *is possible,* and from this no

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logical operation can derive what *ought to be.* To claim scientific backing in morals is therefore suspect, and could do more harm than good if the claim proves erroneous or misleading. Apparently, then, we face a classic dilemma of secular education: That schools omit values from their concern is highly undesirable, and possibly an instance of social negligence, but the appeal to science is fraught with other dangers. Moral judgment does require authority, a ground of legitimation, but where is the *science of value* fit for such a role?

For those who *are* initiated in the teaching movements that have recently commenced, there is no problem whatsoever. "Sciences" of "value formation" have long been sought and are now available; the "is"/"ought" disjunction is no longer an obstacle. The state's booklet takes this for granted, obviously, and the key to it all is the third word we have noted—"process." If values themselves are not derivable from facts, some theorists believe, the *process* of valuing may well be.

The studies that underlie this view—genetic and humanistic psychologies, associated with such names as Jean Piaget, Lawrence Kohlberg, Carl Rogers, and Abraham Maslow—are widely discussed today. But in addition to psychology, there is another field—increasingly important—that also contributes: the group of "decision sciences" based on computers, initially developed for military and managerial use. What such diverse theories have in common is a concern with the "how" of valuing, with the structure of decisions rather than their outcome. One uses "is" to derive not the "ought" of morals themselves, but another "ought": the manner of thinking about morals, and the way of evaluating that manner.

Those who avail themselves of these achievements see the educational dilemma as essentially bypassed: If we teach value science as political science is taught (without telling the student which party to belong to) then *all* values are within our purview. Logic is not violated, and the student becomes morally responsible in the highest degree, for he gains the "competence" to "develop" his own values, and to justify them in the light of reason. There is little doubt that the apparent advantages of this approach contribute heavily to the proliferation of "values programs" in the schools.

Yet in spite of the new outlook, and in spite of initial public receptivity, there has emerged during the past few years a widespread resistance to the project, including stunned and disillusioned parents, as well as reasoned doubts in scholarly quarters.

The clash points again to the dilemma described, and raises an important question: Is harm already being done? If so, is it related

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to the "sciences" guiding such policies as adopted by the State of New York? Or are the protests we hear of incidental phenomena, reflecting undue fear, to be expected when anything new is tried?

This is the question we examine here—by probing the connection between one type of values program, in one school district, and the social conflict to which it gave rise. A controversy over *curriculum* that shakes a town is bound to reveal something contemporary about the relation of theory to practice. Recently, such a conflict took place, distinguished by the clear and extensive record it leaves us. Looking at what actually occurred, what was said and done by different sorts of people—teachers, parents, school board members and professors—we immediately find two striking features: on the one hand, a living enactment of what some analysts are trying to tell us; on the other, odd happenings and strange inversions, as thought-provoking as they are unpredictable.

The case of Spencer-Van Etten

In the hilly region south of Ithaca, New York, only 20 miles from Cornell University, lie the small towns of Spencer and Van Etten. All around are silos, Holstein herds, barns of every style and condition—yet farming is not the only occupation familiar here. From village homes and those adjoining the cornfields, people drive away each morning to work for Cornell, or for sophisticated industries in Ithaca, or commute south toward the IBM plans along the Susquehanna. Quite a number of families are relative newcomers, having left city and suburb to seek something else still: nature, a less treacherous environment for children, peace, and perhaps a chance for the spiritual side of existence.

For such a purpose the place seems well chosen. But in the Spring of 1979, as the local district prepared for its school board election, an uncommon battle raged through these valleys, and the village of Spencer was a center of intrigue. Neighbors met in each other's homes to make policy; professors were visiting to lecture; reporters from Ithaca, Elmira, and towns unknown were dropping by—even CBS's "60 Minutes" was there, cameras shooting a classroom scene.

The reason for all this was the school system's use of a "technique" known as Values Clarification (V.C.)—to many parents, the antithesis of wholesome moral guidance.[2] The election marked the climax of a protest movement already in its second year, and involving other issues also. But gradually the values program became the main target of criticism.

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To picture the mode of these protests, how logic and bewilderment roused each other, let us go back still further in time. If months earlier you happened to be nearby and stopped to pick up the local weekly, you might have read an item like this:

> The following are 8th Grade Decision Making questions given to the children of our school.
>
> Q. Which would you prefer to give up if you had to? A. Economic freedom? B. Religious freedom? C. Political freedom?
>
> Q. Are you in love right now?
>
> Q. Do you think there are times when cheating is justified?
>
> Q. Do you think people should limit the size of their families to two children?
>
> These are my questions to those questions: Who says one "has to" give up any of these freedoms? . . . Does an 8th grader really know if people should limit their families to two children? . . . What are they talking about? Cheating in school? Cheating in society? I feel these questions are "picking at a child's brain."

Under attack is a course of broad scope called "Decision Making" (D.M.), designed to help youngsters choose not only an occupation, but their lifestyles too. However, before people can make such choices, so it is explained, they must first determine what their true values are; and for this purpose the school had adopted the approach of Sidney Simon and his collaborators. Exercises, questionnaires, and "strategies" brought together by Simon's group in a teachers' handbook are used extensively in this course, as is their basic metatheory of values.[3]

Since parents had not yet discovered professional criticism of this new trend, the complaint quoted deserves notice. Its *style* reveals a level of emotion typical of many letters appearing at that time; but its *content,* just as typical, expresses in terse language several objections to which pages of scholarly prose had been devoted—questionable use of forced choice, violation of privacy, and superficiality.[4]

In Spencer, however, this was only the beginning, a kind of introduction, while really tough arguments turned on the philosophical concept of "choosing freely." And rightly so. For if the values-teaching movement makes any idea crucial it is this: A value must be "chosen" by the individual himself, "free," as much as possible, from authority, "conditioning," and "social pressures." Only in this way does it become one's "own," and therefore something positive rather than oppressive, something to be "prized," "cherished," and to "be proud of."

To many parents this naturally comes as a shock—and, inciden-

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tally, to not a few children also. (Some parents became opponents when their children complained.) These people, old and young alike, had thought until now that whether to become an engineer or a farmer was certainly their own choice—truly a "free" and personal decision—but they never believed that whether or not to cheat, for example, was quite in the same category. And this, it seemed, is what the school was saying. One parent wrote: "If I teach my child that cheating is wrong" wrote one mother, "and V. C. teaches a child that there are no right answers, no wrong answers but rather to choose freely, it most certainly upsets the house."

Have these parents misunderstood? Have they missed the point in regard to *process*? If so, they are not alone. The charge of ethical relativism is made by scholars as well—in the philosophically grounded disciplines especially. In this case, an average group of parents sees what the academic community sees. The mechanic and farmer agree with the professor of philosophy. "Ethical relativism"—the technical term—had to be defined in Spencer, yet its significance was known long before.

But "relativism" is not taught here, the school retorts in frustration, and "philosophical generalities" are not relevant to what we actually do. The technique is *professional*, and scientifically tested; it raises to consciousness the cause of our ideals. "We understand ourselves as not teaching values," explains the Director of Guidance, "*but* teaching students to identify the values their parents, friends, churches, and society have already imparted to them." This is the local version of the oft-mentioned claim that V.C. "accepts all viewpoints," does not "promote particular values," and should therefore be offensive to no one. Moreover, the advocates insist, to avoid inculcation is not to say all values are equally good. Simon and his associates write: "If we urge critical thinking then we value *rationality*. If we promote divergent thinking, then we value *creativity*. . . . If we uphold free choice, then we value autonomy or *freedom*."

This is the theory. And many parents have shown good will toward it, even in the face of disturbing practice. When the professional speaks, citing surveys and statistics, most people listen respectfully—especially those less versed in the conceptual apparatus of recent trends. But naturally they also listen to their children.

Take for example the afternoon of May 12, 1979. At the Spencer Grange, the seats and benches around the hall are filled. A photographer walks about popping his flashbulb at whoever seems newsworthy, a television camera bobs up and down on someone's

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shoulder, and in back, near the door, a young woman stands up to speak:

> My little girl came home and told me how she said lying was *wrong*—because Jesus said so—and the teacher told her, "but many people do lie." Well, I don't know . . . maybe I'm wrong, maybe I shouldn't believe what she told me—but I *do* . . . I *beeeelieeeeeve* her!

The mother repeated the key word, drawing it out and raising her voice, and one could not tell whether all its meanings were intentional.

Various people were gathered in this audience—farmers, executives, housewives, engineers, and also teachers from the local school system, their administrators, and members of the Board of Education. They had come to listen to a lecture on Values Clarification and to discuss its problems. The speaker, a philosopher at Cornell, was finished.[5] Now people from the floor were telling their stories, and when the mother of the girl who thought lying was "wrong" sat down, there was a momentary silence in the place. Then a young defender of the new methods answered from the front of the large hall, "Would you like it better if the teacher said nobody lies?"

A man turned to his neighbor with a wry expression. Scholarly debates surrounding the is/ought problem have not reached most parents of the Spencer area, but this they did sense: Not the fact of lying but another kind of "is" was making itself felt at this meeting as it does in the school—the "is" of language, the reality of ***style.*** What is new and noteworthy is not that "people lie," but what educators now *say* about people who lie—or cheat or steal.

A short distance to the south at Elmira College, an assistant professor hears of the controversy; indeed, it touches his town too. A trainer of teachers in the V.C. technique, he gives a talk to clear up the confusion. Suppose you tell a shoplifter that stealing is wrong—what do you accomplish? "It places the other person on the defensive, and the person making the judgment on a plane above the shoplifter." Some people may clarify their values in accordance with the best methodology, and still decide to shoplift. In that case, explains the educator, "you have to respect that decision if they have reached it intelligently . . . at least in this approach, you are respecting the person as a decision-maker."

Soon afterwards a newspaper version of the professor's views is placed in front of every chair at a meeting of the Board of Education in Spencer-Van Etten. Some parents are puzzled, others shrug; but months earlier, an answer had been given to this now familiar stance:

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> If the child "chooses" freely to steal, who do I send the officer to? The school? I tell my children *stealing is wrong*. D.M. states "choose freely" —does that mean D.M. will be responsible for the child they have taught? No, hardly, the parents will be responsible. . . .

And in a formal letter to the Board of Education, the same concern from another viewpoint:

> If the school assumes the responsibility of dealing in areas of personal values, morals . . . does the Board feel it is up to assuming the responsibility to these children that involves seeing them through the hurts and consequences of the decisions about morality? We as parents are suffering with them. . . .

One fear is that the non-judgmental aspect of the program is *formal* only, that indirectly a type of value system is indeed being promoted—not just creativity, justice, and the like. In such a "receptive" atmosphere, parents suspect, the "is" of fashionable attitudes, professionally systematized and synchronized with an assimilated youth-culture, acquires artificially enhanced power; so that thought-structures deemed "advanced" are substituted for the "ought," usurping the normative function of the latter.

Here, for example, is a key general definition used in the controversial course dealing with moral values: What is a "good decision"? The answer given by the D.M. Teacher's Manual: "the result of a decision is only good or bad in terms of the decision maker's own personal preferences."

And so, from the newspaper, a voice asks about the victims of such personal preference.

> If one chooses to steal, destroy, cheat—the list goes on—what about the victims? . . . *Thou Shalt Not Kill* . . . On the other hand there is values clarification which teaches to "choose freely." I would say that Hitler fit into this category. As he chose freely to kill. . . . Bineum Heller, in reaction to the big lie of Hitler and its horrible consequences wrote this:
>
> Perhaps part of the blame falls on me
> Because I kept silent, uttered no cry
> Fear froze my heart and confused my mind
> And I did not resist the lie.
>
> So I have spoken up.

Thus a writer in the *Spencer Needle*.[6] The point must have been made elsewhere too, for in the Adirondack foothills, in a center of V.C. work, a reply for trainers and teachers has already been composed, and appears in a recent book:

> *Could a Person Use the Valuing Process and Become a Hitler?* This

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question represents a classical test for the morality inherent in the valuing process. . . . *Short Answer:* No. A psychologically disturbed person is severely hampered in his or her ability to make free choices and to rationally examine a wide range of alternatives and consequences. Hitler was clearly paranoid and could not effectively use the choosing process of valuing.

At Cornell, speaking on moral education, a professor recalls those charges of old leveled at "corrupters of youth"—and smiles. The audience, knowingly, returns the smile. But vague resemblances, hurriedly glimpsed, may conjure a distorted image. The quotations above, with their awesome subject, suggests perhaps a truer resemblance—in the emphatic juxtaposition of a "scientific" perspective to the concepts of "good and evil."

The protesting parents did not do particularly well in the school board elections of June 1979—for reasons which will be touched upon. Though they received a respectable portion of the vote, none of their three candidates was elected. (One, however, elected the previous year, remained on the Board.) In September of that year, a new private Christian school opened in North Spencer with a starting class of 23 pupils, and this year there are 50.

It would be misleading to suggest that the values controversy alone was responsible for the fact that children are now being withdrawn from this public school system, though many pupils in the new school are children of the protesters. Scholastic achievement had been a major concern before the values issue arose. Strangely enough, "Decision Making" was in part developed to meet that concern—to combat apathy, and demonstrate how valuable *thinking* could be in making life's crucial choices. And on that basis it was defended.

To disenchanted parents, however, the relation between mental growth and this type of values program is of an entirely different nature. It deepens their despair over the intellectual quicksands into which the schools have now sunk, where each step taken to solve a problem seems to make things worse. They say that in regard to rationality, the effect achieved by methods like V.C. is the opposite of what is claimed; that the desire for knowledge and delight in reasoning, naturally budding at that age, may be channeled into something else: an endless sequence of games, of questions and answers that place the trivial and the profound on equal footing. The student is stupefied to a point where he is not likely to stop and think—or object—when after innumerable other queries he comes across, ". . . enjoy watching movies on T.V.? . . . *enjoy go-*

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ing to church or synagogue? . . . enjoy going on a picnic?" (Emphasis added.)

The long-term intellectual effects of holistic elements in the curriculum are always hardest to deal with, and in this area parents have the greatest difficulty making themselves understood. Often they hear: "Do you mean that this innocent little question will corrupt your child? You can't be serious." But these parents are serious, and answer: "Values Clarification mocks the educational process."

Parent vs. school

For some families, no doubt, V.C. was the last straw, especially in view of the school's response to their considerable and initially hopeful efforts. This response—or rather, the response of the education system at its many levels—when faced with inquiry and criticism, is itself a matter that must receive special attention.

The first reaction was, unfortunately, a denial that any such thing as Values Clarification was included in the curriculum—an inauspicious beginning, immediately rupturing the trust between the school and the community. Unconvinced, some parents began their own education, gradually acquainting themselves with the basic texts of the V.C. movement. It was not long before they could place on the table the handbook by Simon, Howe, and Kirschenbaum, and beside it definitions, voting sheets, and tests that children brought home. From then on, the source of these lessons was never in doubt.

There followed months during which letters of protest and dissent appeared in almost every issue of the local weekly. Not all were restrained, or thoughtful, or distinguished by sensitivity to the teachers' unenviable position—letters to the editor being what they are. It is significant, however, that leaders of the protest group clearly set forth arguments paralleling those in the academic literature —a literature with which they were still unfamiliar. That scholarly criticism of values programs is not as easily found as the many volumes written by proponents was certainly a factor in these events.

The second phase of the school's reaction was to say, in effect: Well, yes, we use this "technique," but what of it? Many school systems do; it is state-evaluated, government funded, and approved by the best educators and universities. Then it was possible to quote Lawrence Kohlberg,[7] use a few psychological terms, mention the formidable name of Harvard, and so on—making it quite clear that

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behind the local course stands a vast professional world of *science*, prestige and official recognition, in comparison with which the doubting parent is a stumbler, at best. And to insure the final effect, there followed, at a public debate in 1978, this impressive counterthrust:

> Now I want to know who are *your* sources. . . . Where do you *get* these ideas? . . . You made very strong allegations against the school. . . . On what kind of *research* are these statements based, and *where* does this research come from?

Alas, at this point the spokeswoman for the parents' group could cite only the texts of V.C. itself—the books speak for themselves, don't they? How could anyone read this and *not* see what we see?

What happened instead was totally unexpected by the parents. In the third phase it was they who stood accused:

> We are witnessing an attack by an organized group . . . led by extremists from the far right who would like to see a little more hate than already exists in the world. The philosophy espoused in recent letters is embraced by the John Birch Society, the Heritage Foundation, the Conservative Caucus, the National Conservative Political Action Committee, and other ultra-conservative organizations.

This published outburst from a Spencer citizen became the keynote for much of what followed. The critics were described as anti-intellectual, simplistic, and opposed to independent critical thought. They were charged with "lifting" ideas from outside sources, and their actions were blamed for "dividing" the community. The insights of humanistic psychology and advantages of "process methods" seemed far beyond their understanding. But that was hardly the worst of it: The teachers' spokesman—head of a recently formed "Academic Freedom Committee"—warned of possible "links with the new right coalition in the country, one aim of which is to do away with the public schools." [8]

Actually, the situation was quite different. In over two years of controversy, no evidence of any ties to an extremist organization was uncovered, though at least one Ithaca newspaper went to the trouble of "acting on local tips" and conducting its own investigation. "Are you now or have you ever been a member of the John Birch Society?" was asked of a member of the Board of Education.

In the beginning, lacking political experience, the letter writers did avail themselves of whatever materials seemed to indicate a shared concern—and these, it is true, do not all conform to the highest standards of scholarship. Still, such fragments as appeared in Spencer could not in seriousness be called extreme or "ultra." (Of

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"outside sources" serving as a true inspiration here, C.S. Lewis' *The Abolition of Man* was one, and the Harvard speech of Alexander Solzhenitsyn another.) Thus the school critics of Spencer-Van Etten acquired a bad name: "We have become the target of much criticism, mockery, segregation . . . not only as a group, but as individuals as well. We are not enjoying this role." And a bad name is not easily shed.

Much later, when the relevant scholarly papers were discovered, when academics came to town and long discussions were held privately and publicly, and when highly respectable professional criticism was offered to the community, the labels still stuck. Repeatedly, the critics had to ask for attention to the substance of criticism, not its alleged sources:

> I am very concerned about being labeled "extreme right wing". . . . If you think what we are saying is wrong, then *talk* to us about those issues, don't call us names. . . .

And even when a scholar experienced with the problem (Professor Baer, of Cornell) came to the aid of the parents' cause—with detailed analyses, and lots of patience—that only discredited the scholar! "An avowed enemy of Sidney Simon," was the teachers' reaction. "Why has an outsider stepped into our local controversy?" asked the president of the Board of Education, "his remarks were . . . an affront to our local people."

Here the issue stands. Those parents who out of religious or moral conviction do not wish to have their child's values "clarified" can with some effort avail themselves of a special procedure: The pupil is separated from his class and placed in study hall. This was the main concession brought about by the protests. Though parents point out the possible psychological harm, the injustice, and the educational waste of such a policy, no further accommodation has been offered. However, as people in this community continue their criticism—drawing in more detailed, credible support—the aura of unquestioned legitimacy surrounding the values program is dispelled. Since the election of June 1980, at least one third of the Board of Education is sympathetic to the case of the protesters.

Six unsettling questions

The controversy described obviously touches on issues of greater significance than a particular program used in one community. A critique of the Values Clarification method as such will not be given

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here. Rather, my aim is to reflect on a few of the more important problems brought to light by the Spencer-Van Etten story; and to pose, in the case of each problem, the basic question involved.

It is perhaps not accidental that the first difficulty encountered in Spencer-Van Etten, that which caused the earliest complaint and much bad feeling, had to do with the question of *truth*—not the problem of what to teach children about truth, but whether the school is telling the truth. Certainly access to fact was hard to obtain for those whom these facts affected most—the families of pupils, the "consumers" of education. A controversial program was part of the required curriculum, but parents were told it was not. When they discovered otherwise, they were assured it played a minor role; when they perceived it was the basis of courses in decision making, the explanation was that no educator could be found to oppose the approach; and when they brought to town scholars who did oppose it—things turned nasty.

We have here a new kind of credibility gap, involving not merely the schools' shortcomings, but their very intentions. And this misinformation or lack of information regarding programs likely to be found objectionable is not unique to the towns we have focused on. It is reported of a district in Anne Arundel County in Maryland that the Board of Education itself "had no idea" of the use of V.C. in their school, and the revelation was "positively electrifying."[9] In a New Jersey course, Transcendental Meditation was apparently practiced with incense, chanting, and invocations to Vishnu, but that did not prevent school officials from blandly denying a religious content. "Inexcusable ignorance . . . bordering on deception," replied parents; a legal suit was needed to eliminate the program.

Did the response in Spencer-Van Etten also border on deception? Many people believe just this. Unfortunately, the V.C. handbooks lend support to that suspicion, since total frankness is not encouraged. What parents see, teachers are told, should be *carefully selected.* Trainers themselves prejudge the source and nature of objections in a way that corresponds exactly to what happened in our story.[10] The patronizing attitudes, so bitterly resented by parents in this case, are less surprising therefore.

National attention is now directed to problems of "truth in lending," "truth in advertising," the Freedom of Information Act, and so on. But "truth in education"—in the same sense—seems to have been taken for granted. Thus, our first question:

1. *Is it acceptable that families of pupils in public schools be denied access to any information regarding curricula, school activi-*

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ties, or teacher training? Or that the standard of veracity for teachers and school officials be lower than that for auto makers, bankers, or the Department of Justice?

The second point may also be seen in a consumer's perspective: Not only the purpose of a product has to be considered, but unintended results also. Cigarettes, energy use, and certain medicines have taught us that some side-effects are cumulative, long range, and hard to detect. Such experience supports the demand that on every new product or "system" introduced into society there be imposed bounding conditions within which the designers must solve their problem. And to insure not only that positive claims are justified, but that these conditions too are met, *time* is required.

How do matters stand in education in this respect? When Values Clarification was introduced in Spencer-Van Etten in 1974, and the *Handbook of Practical Strategies* was beginning to be used there, this fundamental text of the movement was barely two years old. "Research" on the effectiveness of the approach was "far from conclusive"—by the authors' own admission—and side-effects were not even mentioned. In the following year, evaluators termed these studies "relatively unsophisticated";[11] and the first systematic appraisal of even this doubtful evidence—which did not appear until 1978—essentially refutes the positive claims of the proponents.[12] Thus, when the program was initiated in this school district, detailed professional criticism of Values Clarification had not yet begun. But advocacy by the developers was loud, their materials flooded the libraries, and their activities were gaining favor with the State and the teachers' union.

This situation gave rise to an especially instructive though predictable phenomenon. There was a time—some parents believe—early in the protest, when the protesters were being "listened to" by their community, and indeed by a fair number of the teachers themselves. It was their inability *at that time* to produce unimpeachable professional critiques, supporting at least in part their own objections, that largely determined the ensuing course of sentiment. In the absence of scholarly judgment, the charge of "right-wing sources" dominated the atmosphere. And once public positions were adopted, and commitments made, no amount of credible evidence could alter the outcome, for then a powerful new element had entered the picture—personal prestige.

Whether we take a "consumerist" viewpoint, or that of scholarship and science, the implication is clear: Criticism *follows* innovation; a decent pause between proposal and full-scale use is there-

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fore indispensable. The lack of thorough, many-sided evidence invites leadership by selected expertise and half-baked professionalism, and in such a context the ideal of local control of education through elected boards is hardly meaningful. Our second question, therefore, is:

2. *What checks and balances, if any, exist within the educational system to prevent questionable practices from being "sold" to the school before competent evaluation has taken place? What mechanisms are there for communicating to the schools and their communities all aspects of such evaluation at the time they are needed?*

Now suppose a new program is in fact developed at the universities and widely implemented—and it does engender opposition. What then have we a right to require of the educational system?

Nothing was more evident, and more embarrassing to the teaching profession, than this fact: After a year of discussion and debate, the protesting parents were in possession of more knowledge, more documentation, and deeper understanding of the subject at issue than were the teachers defending the school's position. The parents, not the school, informed the community of the relevant literature, and brought in scholars to speak. Teachers involved in the controversy seemed caught off-guard, frightened, and badly prepared to handle the intellectual substance of the protest. Perhaps this explains why they never did come to grips with that substance, but concentrated instead on other replies.

"My intention here tonight is to get the facts out, and to demonstrate to you what we have found in our research." So began the teachers' representative in a public forum in Spencer-Van Etten. His posture is flawless. It is indeed the teacher's job to supply facts and dispel prejudice. What followed, however, was breathtaking: "I teach a college course in adolescent psychology and moral development . . . and the only place that I find the statements you people make about Values Clarification is in this right-wing literature." When this statement was made in December 1978, the *Moral Education Forum* had been reporting professional opposition for about three years, and a special issue of *Phi Delta Kappan* featured debates on the same kinds of objections local parents were raising.

The conclusion in Spencer was inescapable: Either school employees knowingly withheld critical opinion from the community, or they honestly did not know of it and could not find it even with effort. In any case, the professional training of these educators is called into question, and the responsibility of the academic world in such controversies reveals itself as greater than commonly as-

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sumed. Criticism of teacher education is nothing new, but the expansion of public schools into the realms of morals, sex, death, the self, and "decisions" in general, raises additional questions.

Can the average teacher with the average training be a "teacher" —or "facilitator"—in such deep waters without comprehensive additional education in ethics, moral history, theory of knowledge, and the like? May we not expect that these modern "teachers of virtue" will themselves have had an education commensurate with the task? It does not inspire confidence to be lectured by an instructor in "moral development" who does not even possess the basic skill of a "library look-up" in his own field.

Unfortunately, most developers of these programs are far more engaged in stocking a veritable supermarket of materials—with films, tapes, games, numberless "strategies" and "moral dilemmas"—than the in-depth education of the teacher. Values Clarification, which recommends itself as "easy to get started," is especially culpable in this respect; to become a practitioner, the novice is assured, "a relatively short training program, as short as a few hours," will suffice! Summing up this side of the problem, then, we ask:

3. *Do the universities—and does society—feel comfortable with a situation in which millions of children in thousands of schools receive systematic moral education from teachers whose study of the subject consists of no more than a one-week workshop and a handbook of strategies?*

Morality and process

In discussions of whether moral education belongs in public schools at all, two questions always arise. Can you really avoid moral problems? And wouldn't prohibition violate a basic freedom?

Again the drama of Spencer-Van Etten casts the issue in a new light. The controversy there began in earnest not because an individual teacher made an isolated remark or gave a personal opinion, but when parents discovered exercises, questionnaires, and definitions, taken from *handbooks* and systematically applied in classes, and when they realized that this methodology projects a meta-ethic fundamentally different from the universal recognition of objective value and "common human law"—what C.S. Lewis called the "Tao."

Teachers' freedom to express personal views on moral questions, when these questions arise naturally in subject matter or discussion, was *not* contested here. And of course such "dealing" with moral

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issues cannot be avoided—nor is it. Nor does any serious person suggest it should be. The crucial question seems, rather:

4. *Is the issue of "free speech," when each individual teacher responds on the basis of his own unique background and convictions, the same issue as when a whole school, or district, adopts this or that developer's system of moral education, complete with hardware, software, "trainers," and gurus? In the latter case, may it not actually be a restriction on moral dialogue?*

The opposition in Spencer-Van Etten did indeed believe that a narrowing of moral vision had been imposed. Parents usually find the nature of this narrowing difficult to articulate in a form acceptable to educators, but in this community one school board member rendered the gist of it concisely: "We're not saying our precepts should be taught, but if ours are left out, then leave out all values."

The statement deserves attention. What is meant by "our precepts"? It is not, as sometimes charged, "our religion." The Constitution's stricture in this regard is well known here and not challenged. We arrive therefore at a point where the pervasive effect of *meta*-ethics comes to the fore—the foundation of ethics, its origin, its categories. What is clearly felt by many parents is the exclusion—from the explicit methodology—of a whole realm of moral categories not specific to one religion, but part of that "Tao" encompassed by the heritage of both East and West: the *good,* the *true* (objectively), the *just, soul, faith, courage, moral rebirth,* (or "turning," or "enlightenment") . . . etc. What they see instead is a new set, including such concepts as *self-image, life-style, rich experience, decision-model, risk strategy, maturity, self-actualization,* and *rationality* (in the hypothetico-deductive sense). The only element from the older list often kept is *justice.*

Granted that such a shift in ethical categories accords with trends in psychology and operations research, are there valid grounds for *excluding* from public education the more traditional set? Well . . . there may be. There may, indeed, be—*if* such language is in itself deemed to be religious, and its inclusion unconstitutional. But this raises perhaps the most fundamental question of all:

5. *If the systematic teaching of morals within the bounds of the First Amendment requires systematic exclusion of a whole realm of meta-ethics underlying moral thinking in our society, isn't this in itself a distortion of ethical discourse in the intellectual sense, and injustice in the social sense?*

Yet systematics is the main feature of the values teaching movement today; it meets the requirement that morals too be seen as

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skill, that here also a *science* legitimates. Let us look at the point from a humanist perspective.

The word "humanism" is, of course, ambiguous. One usage,[13] relevant here, connotes by "human" what is distinct from "mechanical." The "knowledge factory" and "mega-machine" embody its opposite. It is this anti-mechanistic, anti-rule-following inclination that led reformers to indict so-called traditional education, and to introduce a whole series of reforms to free the schools from needless stifling formalism. And this aim one can easily accept.

But today a curious reversal seems to be occurring. Humanist educators increasingly press to systematize the few realms that have so far escaped this fate. "Traditional" education assumed certain values axiomatically—and for that very reason had no need to explicate them through a system. If a child cheated on a French test, for example, he lost face with his peers and his teachers—and this is how the value was *supported* (not "reinforced," not taught!). Now, however, a pupil is asked whether, according to someone's criteria, that "decision to cheat" is or is not a "critical" one. Again, a child is tempted to "drop a friend who is being made fun of by other kids at school." In a traditional environment, chances are a youngster would *recognize* that act for what it is; but today in Spencer he is *taught*—to identify which of the four "main risk-taking strategies" this decision represents.

Science, by definition, systematizes what it deals with, it formalizes its subject. And the formalization of decision making along the lines of management and computer models, if applied to morals, must obviously reduce that also to a system. It is fair at this juncture to ask, of humanists especially:

6. *Is it good "strategy," in the long run, to humanize our "knowledge factories" by replacing the axioms and disciplines of one era with the systematics of another? Is rule-following in "how to decide" really less mechanical than rule-following in regard to ends? In short, is an automatic "value-driven decision system" the proper model for a more moral, more humane society?*

A warning, ancient and modern

The final point is not a question at all, but a reminder. The values education movement has justified its mission partly by the rapid social change occurring in our time—the "collapse of the old morality." True, the change is great. It lends urgency to the work of the developers; to do nothing seems dangerously complacent. That

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is one horn of the dilemma of values education. But in thinking about man, as about nature, there generally has been equal concern with the *invariants,* as science calls them—that which remains constant in the midst of all change. Compare now the dialogues from Tioga County that have occupied us here, with those of another, "simpler," age. In the invariant lies the second horn of the dilemma.

Protagoras, the Sophist, is come to town. And the young Hippocrates is all on fire—for this teacher, famous in all the cities, promises his student not the "drudgery of calculation, and astronomy, and geometry, and music," but "prudence in affairs private and public . . . to speak and act for the best." He has a special method, it is told, and all the youth and would-be teachers throng about him like a king's entourage.

But wait a minute, says Socrates—how do we know it's all true?

> When the soul is in question, which you hold to be of far more value than the body, and upon the good or evil of which depends the well-being of your all—about this you never consulted either with your father or with your brother or any one of us. . . .
>
> Surely . . . knowledge is the food of the soul; and we must take care, my friend, . . . that the Sophist does not deceive us when he praises what he sells, like the dealers wholesale or retail who sell the food of the body. . . . In like manner, those who carry about the wares of knowledge, and make the round of the cities, and sell or retail them to any customer who is in need of them, praise them all alike; though I should not wonder, O my friend, if many of them were really ignorant of their effect on the soul. . . . If, therefore, you have understanding of what is good and evil, you may safely buy knowledge of Protagoras, or any one; but if not, then, O my friend, pause. . . . For there is far greater peril in buying knowledge than in buying meat and drink. . . . You cannot buy the wares of knowledge and carry them away in another vessel; when you have paid for them, you must receive them into your soul and go your way, either greatly harmed or greatly benefited. . . .
>
> Plato, *Protagoras*

And today:

> "You are what you eat," most of us have heard that expression.
>
> There are those who are very concerned about "junk" being served through the school breakfast and lunch programs. They believe as adults we are responsible, and should be choosing nutritious food for school children. . . .
>
> I have heard the phrase, "You are what you think." This also has clear meaning to me. What I think is eventually manifested in my character; the things I say and do. Shouldn't I be equally concerned

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with the nutritional value of what enters my mind? Shouldn't I be even more concerned as to my children's choice? . . .

Theresa Rimbey
Spencer Needle
August 10, 1978

NOTES

[1] *Goals of Elementary, Secondary and Continuing Education in New York State* (The University of the State of New York, 1974).
[2] For a general introduction and critique, see William J. Bennett and Edwin J. Delattre, "Moral Education in the Schools," *The Public Interest*, 50 (Winter 1978).
[3] Sidney B. Simon, Leland W. Howe, and Howard Kirschenbaum, *Values Clarification: A Handbook of Practical Strategies for Teachers and Students* (Hart, New York, 1972). This is a widely used text.
[4] For example: John S. Stewart, "Clarifying Values Clarification: A Critique," *Phi Delta Kappan*, 56, No. 10, 1975, and other articles in that issue. Alan Lockwood, "A Critical View of Values Clarification," *Teachers College Record*, 77, No. 1, 1975; and "Values Education and the Right to Privacy," *Journal of Moral Education*, 7, No. 1, 1977.
[5] Professor Richard A. Baer, Jr. (Cornell University). See also his "Values Clarification as Indoctrination," *Educational Forum, XLI*, No. 2 (January 1977).
[6] September 14, 1978, p. 7. Most of the local quotations given in this article appeared in the *Spencer Needle* during 1978 and 1979.
[7] Lawrence Kohlberg has criticized Values Clarification for some of the same shortcomings as have the parents of Spencer-Van Etten. But since he has defended the use of V.C. in public schools, his name was used here in support of the controversial course. See "An Exchange of Opinion between Kohlberg and Simon," in *Readings in Values Clarification*, Howard Kirschenbaum and Sidney Simon, eds. (Winston, Minneapolis, 1973).
[8] *Ithaca Journal Magazine*, January 27, 1979, p. 1.
[9] Private communication. See also *Maryland Gazette*, July 30, 1979, p. 1, and *Sunday Sun* (Baltimore), May 27, 1979, p. A-1. In Anne Arundel County, parents apparently won some legal restrictions on the use of V.C.
[10] Howard Kirschenbaum, *Advanced Values Clarification* (University Associates, La Jolla, 1977), Chapters 4 and 13.
[11] Douglas Superka and Patricia L. Johnson, with Christine Ahrens, *Values Education: Approaches and Materials* (Social Science Education Consortium Inc., Boulder, Colorado, 1975).
[12] Alan Lockwood, "The Effects of Values Clarification and Moral Development Curricula on School-Age Subjects: A Critical Review of Recent Research," *Review of Educational Research, 48*, No. 3 (Summer 1978).
[13] But "humanism" also connotes an opposition to *theism*: in our culture, Judaism/Christianity. The confusion of the two meanings of the word greatly exacerbated the conflict in this communty, and elsewhere.

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"Indoctrination" and societal suicide

ANDREW OLDENQUIST

If we were anthropologists observing members of a tribe it would be the most natural thing in the world to expect them to teach their morality and culture to their children and, moreover, to think that they had a perfect right to do so on the ground that cultural integrity and perpetuation depend on it. Indeed, if we found that they had ceased to teach, through ritual and other organized means, the moral and other values of their culture, we would take them to be on the way to cultural suicide: Like cultures whose values and traditions wither in the face of technological civilization, we would think them ruined, pitiable, alienated from their own values, and on the way out.

Most of us have similar attitudes toward the educational policies of nation states other than our own, though not for systems of propaganda that serve obviously threatening and wicked ends, such as in Hitler's Germany. Few non-communists criticize Chinese communes for raising children to respect and internalize current ideals, even if they criticize the ideals themselves. We expect Japanese and Nigerian children to be educated to be, among other things, good Japanese and Nigerians. We find this to be a natural and rea-

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sonable expression of societal self-interest—what we might call group egoism—even when their moral teaching has national peculiarities that go beyond those basic traits of fairness, honesty, willingness to work, and disavowal of criminal violence that are necessary for any society to survive and perpetuate itself.

Some of the very people who would be the first to accept all of this regarding other cultures are the first to deny it regarding their own. They are inconsistent, of course, unless they desire the death of their own culture for reasons that do not also apply to other cultures. Values Clarificationists and the followers of Lawrence Kohlberg have argued that nothing ought to be taught to school children as right or wrong, on the grounds that doing so is indoctrinative, and therefore wrong. Values Clarificationists wish to clarify preferences, which they call "values," by encouraging children and teenagers to rank their preferences in various ways and to understand the consequences of acting on their preferences. Kohlbergians wish to encourage people to give reasons at what Lawrence Kohlberg calls higher stages of moral development. In the past few years each of these movements has attempted to modify its initial strong prohibition of moral content in moral education; but the modifications have not yet gone very far and they are not obviously consistent with other things the movements still say, particularly regarding the concept of indoctrination. Thus, the underlying issues dividing advocates of directive and non-directive moral education in what is called a pluralistic society still require examination.

Half a world away

More like a traditional tribe, and less like the tribe of American moral educators, are the staff and students at Leningradski School number 40 in the northwestern part of Moscow, which I visited this past October. It is, of course, a modern show school, with all the athletic and other physical facilities one could want. I signed a fat guest book already filled with the effusions of countless foreign delegations.

They use, as does every Soviet school, uniform manuals of what they call "communist education," which are teachers' guides for bringing up children in a collectivist spirit.* They are as open as

* For example, *The ABC's of Moral Education* (Moscow, 1979: In Russian). The 1979 printing of this book was 400,000 copies, extraordinarily large for a Soviet printing.

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they are dedicated about the kind of character they attempt to mold: earnest and serious, cooperative and helpful, service oriented, happiest in group rather than individual activities. The students were polite and very orderly in class; groups practiced ball throwing and 1950's dance steps in perfect synchrony.

At the end of my visit I had tea and candies with the administrators and senior teachers, all intelligent and obviously dedicated middle-aged women. They beamed with pleasure when I praised things—the serious atmosphere of learning, the moral emphasis on courtesy, considerateness, cooperation, and public service. "In fact," I said, "your school reminds me more of the Roman Catholic school my own children attend than it does American public schools." Their smiles froze and all of the hundred ikons of Lenin hanging in the rooms and corridors gave me dirty looks. Contrite, I praised again, even pointing out that I had come to like school uniforms (the Russian children wore dark blue with white trim), and again they beamed. "But you must understand," I concluded, "I am more conservative about education than are most Americans," and once more their smiles turned to ice.

I did not get to see moral education in action, for it is woven into the structures and routines of Soviet education rather than taught in special sessions, but I talked with several Moscow education professors about it. I get the sense that it is didactic, highly structured, horrified at really open questioning and at behavioral divergence from the narrow path to the true collectivist spirit. More significantly, the directive moral education in which they engage takes place at what I shall call non-basic levels: It goes way beyond the basic core of morality a society needs in order to survive. It dictates details of social behavior and life style that most Americans would never dream of transmitting uniformly through the public schools, even if they thought such behavior desirable. If, as I believe, Marxism-Leninism is a religion, then the Soviet Union is a theocracy. And, as in any theocracy, its moral education program is conservative in *form*, though Soviet moral education is largely revolutionary in *content*, both because it is Marxist and because it aims to transform the moral consciousness of the people. That is, its moral content, *what* it teaches, is Marxist-Leninist, and includes much that we would not want children to internalize, such as class consciousness and class animosity; but its commitment to directive moral education in the sense of forms and procedures designed to perpetuate its morality is highly conservative. The latter commitment presupposes, first, that there is something to conserve—a com-

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mon morality—even though in the Soviet Union it lies more in the ideals of the rulers than ready at hand in the consciousness of the people, and second, that a common morality is *worth* conserving and therefore should be passed on to the new generation. By contrast, writings of American moral educators tend to be revolutionary regarding form, in the sense of denying legitimacy to the internalization of some definite list of values, and therefore without content.

It is in the formal aspect that I think the Soviet approach is superior to ours. They go all out to teach definite moral principles to children; we should do that too, though not exactly the same principles. A similar pair of premises underlies my position, namely 1) that Americans actually *have* a common core of social morality to conserve—in other words, that we are a moral community; and 2) that this core ought to be conserved with the help of the public schools. The rest of this paper is largely a defense of these premises. But we should note at once that American democracy makes this defense more difficult than it is for the Soviets. The Soviet rulers need only decide that a moral code is justified, and then set out to transform the people, whereas we must not only justify any morality we teach, *but find it already in the consciousness of the American people.*

In other words, we can use the apparatus of the State to perpetuate an already existing moral consciousness, but we cannot, without intolerable paternalism and the contempt for one's wards that paternalism tends to breed, use that apparatus to produce a new moral consciousness. What this implies is a system of moral education that is conservative in *both* form and content, and thus differs as much from the Soviet system as it does from that of the American moral educators I am criticizing.

The rejection of directive moral education by modern moral educators, especially the values clarificationists, constitutes a rather good formula for societal suicide. Private institutions, such as families and churches, have a *right* to engage in moral education; but public institutions, such as public schools, have an *obligation* to do so, because they are the instruments non-suicidal societies create to perpetuate what is essential to the continued existence, and therefore the continued benefits, of the society. A citizenry's internalization of basic principles of social morality is at least as essential to the continued existence of a society as is the provision of police protection, the enforcement of contracts, and the levying of various kinds of taxes.

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Moral core and moral controversy

We need to distinguish the basic moral core that sustains a moral community from the controversial issues and exceptional cases which bewilder adults. In our own society the moral core consists of principles of social morality such as honesty, fairness, willingness to work, disavowal of criminal violence, respect for the democratic political process, together with personal virtues such as courage, diligence, and self-respect. It is essential that young people actually acquire these attitudes and not simply talk about them. On the other hand, factually informed, careful reasoning about controversial cases (such as the "dilemmas" that Kohlberg recommends we discuss—policy issues such as abortion, capital punishment, racial quotas, plus unclear exceptions to principles prohibiting lying, stealing, or marital infidelity) is the mark of a morally mature and sophisticated citizen. But we should not refer disparagingly to teaching basic principles as mere "socialization" and reserve the term "moral education" or "moral development" for discussions of dilemmas, as though teaching moral principles were unjustified or an unimportant part of moral education. Several points need to be made in elaboration of the distinction between a basic core and moral controversies.

First, teenagers and adults can benefit from reasoning about dilemmas and hard cases only if they have already accepted and internalized a basic core of principles. For example, one has to accept and take very seriously a principle about honesty before one can agonize over exceptions to it. If students are taught dilemmas before or in place of principles, they will think that morality is nothing but dilemmas; and if they discuss exceptions to principles without first having internalized the principles themselves, the exceptions, meeting no resistance, will come all too easily. There are good reasons for wanting one's society to contain principled citizens and officials, in addition to the fact that if they are principled they can be relied upon. There are many lies and acts of violence that, in a particular case, produce more benefit than harm, but that, if practiced generally, would result in great harm to society. Immediate benefit in the case at hand is very tempting, so much so that even a utilitarian and consequentialist like John Stuart Mill emphasized the need for principled citizens whose first and strongest inclination is to follow internalized simple rules. Of equal importance, selfishness loves to masquerade as the desire for some expected social benefit that will result from lying, violence, or unfairness. Yet theorists of moral education generally ignore principles;

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they dwell on moral dilemmas and controversies partly because these are what, naturally enough, interest them as adults, and partly because they fear being accused of actually taking a moral stand on something. The result is that they treat children as though they already had principles and were now ready for the careful consideration of qualifications.

Second, the inculcation of civilized moral habits not only logically precedes the study of dilemmas, it is essential to any society even minimally safe and satisfying. A society is a moral community, which means that it has a shared morality that predictably regulates interpersonal conduct. This morality is internalized, and operates in the absence of police or threatened social disapproval far more effectively than cynics believe—one need only think of the countless usually minor occasions on which, in the absence of any social threats, one keeps one's word, refrains from theft, and acts fairly. Habitual, principled behavior of this sort is simply more important than reasoning about controversies, though both are important. But people do not become principled by magic or by heredity, nor is it possible to transmit moral principles to children by the use of nondirective methods. They must be made so by the society's institutionalized civilizing agencies—families, churches, public opinion, and schools.

To suggest that a society lacks the right to teach children the basic morality on which its very existence depends is tantamount to suggesting that it has no right to exist. If we think for a moment of the enforcement of criminal law—to which even values clarificationists would concede that the state as the representative of society has a right—it then becomes preposterous to suppose that the state, through its institutions including schools, has no right to teach the very morality whose breach is the subject of the criminal law, and the enforcement of which constitutes an accepted tax burden amounting to billions of dollars each year.

Third, acquiring a principle of social morality is not just a matter of coming to know something or to reason in a certain way. A well-brought-up person *feels* badly at the thought of breaking a promise or stealing and has to have an awfully good reason, or very strong temptation, before he will go ahead and do it. The philosopher Joel Kupperman puts the point as follows:

> To learn a simple moral rule is not just an intellectual exercise: it is to acquire a habit of not behaving in a certain way, a reluctance to behave in that way, and a strong tendency to feel psychic pain at having acted in that way. It is to acquire an inhibition. . . . Such a

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> person will be, as we say, a poor liar, awkward and troubled about breaking promises. . . .

Basic moral attitudes are strong dispositions to respond in certain ways and hence they are mediated by feelings. Aristotle made the point by saying that a morally educated person finds virtue to be (relatively) pleasant and vice (relatively) disagreeable. If children are introduced to moral principles by a discussion in which a teacher says, "in our culture dishonesty is disapproved," they will note that as a dry, sociological fact, much as "in the Bongo Islands it is wicked to eat jub-jub berries." In general, American moral educators stay as far away as possible from the emotional components of moral principles and the emotional aspects of moral education. This enables them to feign a dispassionate moral neutrality, whereas if they admitted that moral education required bringing children to *feel* strongly averse to lying and unfairness, they could not possibly avoid advocating what, according to their definition, is indoctrination. Consequently, moral educators intellectualize morality and the process of moral education, which also is paradoxical since many of these same moral educators are ethical relativists and do not believe in the efficacy of intellect in matters of morality.

If a teacher confronting a brazen lie or a gross and hurtful act of unfairness became indignant, shouted, and trembled with anger —and said *why* he reacted this way—it would serve better as an instrument of moral education than a thousand calm-voiced, morally neutral discussions of dilemmas where all the "yes's" and "no's" have equal rights. For children know that anger is real, and the teacher's anger would help them to understand that morality is part of the real world. What I mean is that anyone who really believes that something is immoral—like forcible rape, or lying that ruins the career of a rival—hates or intensely dislikes it, fears it, and is angry at instances of it. The things we sincerely believe immoral are things we truly do not want to take place, and therefore it is perfectly natural that we become angry and indignant when they do. Yet these are not just naked emotions. Rules of morality ought not to be retained unless they can be justified, and some of them must be additionally and differently justified as appropriate for teaching to children at certain ages. So there are two main tasks for moral educators: producing in children moral attitudes that can be relied on to guide their behavior, and justifying these attitudes.

Because morality is as much a matter of emotion and feeling as a matter of rationality and reasoning, it is an error to think that one should "play it cool" and never get excited about moral issues in

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front of children. Children will be confused by this because they already have begun to learn moral concepts outside the school, and because the very language of morality—words such as "immoral," "ought," "wrong"—is emotional. Moral words are highly charged. Thus teachers, parents, and juvenile authorities are likely to mislead themselves about the nature of morality, as much as they do young people, when they attempt to be unemotional, neutral, and "objective" when confronted with real issues involving social morality. They will find themselves substituting either of two different things for morality. On the one hand, they may replace talk about what is moral and immoral with chatter about people's "values systems" and the fact that rape and theft happen to be disapproved in our culture. This is the path that turns morality into sociology and moral principles into personal "values"—my values, your values, and Charlie Manson's values. On the other hand, they may decide that it is all right to let go and get just plain, *non*-morally, mad at theft in the classroom or at an incident of race discrimination. The idea is that getting emotional is all right so long as you don't try to justify it: It is just personal, autobiographical anger, forgivable in anyone, whereas justification and the use of moral language would imply claims on other people's emotions. This is the path that replaces "It's wrong" with "I don't like it."

The flight from right and wrong

Each of these moves—the flight to sociology and the flight to personal feelings—is a method of escape from having to face morality itself and commit oneself, in front of innocent children, to the principle that dishonesty is *wrong*. Each is also a form of decadence. Consider again the tribe whose deep sense of right and wrong and cultural vitality withers in the face of a modern civilization that ignores the tribe's moral code or, worse, considers it quaint. The etiology of what happens has to do with what Immanuel Kant called lost innocence and which, he says, can naturally lead to relativism and moral cynicism. The existence of a unitary, non-fragmented society depends on its members' awareness of having a core of deeply and confidently held common moral values—in other words, *on their being a moral community*. Within the moral community they may dispute, but with confidence that at the deepest levels they are still one people. Moral diversity at a deep level, or even what falsely appears to be so, destroys innocence by destroying the ability to take for granted the basic principles that define the

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moral community. When this innocence is lost a natural dialectic takes over, whose first step is the shift from "the gods forbid so-and-so" to "*our* gods forbid so-and-so." The next step is, "we have our value system, but all those other societies (and sub-societies) have different ones." Reflection on this leads one to downgrade moral principles from the status of objective claims to the status of autobiographical reports about how one feels: These are the "values" that some moral educators think is the proper subject of moral education. The final step is withdrawal of serious commitment to any principles of morality: Now one is alienated from the morality even of one's own community, and becomes like a field anthropologist who sits on a hill and watches with perfect detachment as two tribes slug it out. One has achieved objectivity; one is an observer, classifier, and clarifier of "values," and, in the extreme case of our field anthropologist, is ready to say to a teacher who is upset at theft by a child from an urban slum, "but you see, he (or she) may simply have been brought up to have a different value system from yours."

What to do in the face of moral heterogeneity is a serious and genuine problem and it is obvious that the answer cannot consist in the enforcement of innocence. Innocence once gone is gone forever, as much for American society as it is for an island tribe. But the decadence that lost innocence threatens is as potentially deadly to our society as it is to the tribe.

Consider, as an example of this decadence, the attitude of cool values neutrality that is practiced not only by moral educators but by many people in the fields of juvenile justice, corrections, and rehabilitation. The unforgivable, indeed unprofessional, sin in dealing with a juvenile robber or vandal is to express disapproval of him or his act, or to preach or moralize. One may say, "He has been preached at and scolded too much already," but I wonder if that is true. He is a client, like a client in any business transaction, and we say, "I am sorry, Mr. Jones, but, you see, the law requires that if you do so-and-so, you must be incarcerated." Suppose that Jones is processed in this way from start to finish, from arrest and prosecution to release and parole, no one ever confronting him as a wrongdoer but, at most, pitying him as a victim of "the system." This approach is likely to have two kinds of cumulative effects on a delinquent youth.

First it teaches him that not even the corrections professionals believe there is anything really wrong with him, or even with what he did: They are committed to the procedures, which their careers

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require, but not to any morality which underlies and gives meaning to the law. For no one is mad at him, they just process him, and the conclusion he draws is one of complete cynicism—the law being a bizarre and motiveless threat, like the threat of disease or accident, and which through bad luck snared him. Second, "objective" and morally neutral officials depersonalize and threaten the very self-identity of youthful criminals. Heroes, good citizens, and successful business people get credited with what they do in the sense that their actions are attributed to *them* as responsible, moral agents—as human beings and members of a moral community. But the youthful criminal is deprived of credit for his actions: He is treated like a manipulated thing, not a responsible moral agent, which means he has been demoted from a human being to an intervening variable —a mere intermediate link in an impersonal causal chain which begins with an idolatrous prime mover called "society" and ends with the criminal's victim. So the delinquent, who would like to get credit for *something*, cannot even get credit for mugging somebody.

It is said that in a Chinese commune, if Wang takes Chou's hoe, he is set down in a circle and lectured, complete with wagging fingers and all the reasons *why* what he did was a bad thing. While I have my doubts that exactly this procedure would work in Manhattan, it is obvious that what *is* done in Manhattan doesn't work very well. We need to consider the idea that values neutrality on the part of teachers and officials is one of the causes of crime and delinquency; and we have to ask ourselves whether the same risk applies, even if less acutely, to morally neutral moral education sessions where participants rap about dilemmas or classify preferences without exhibiting a commitment to a background of actual moral principles in terms of which moral reasoning takes place. If acquiring a correct moral principle is internalizing, and making habitual, justified aversion—even hatred—toward such behavior as assault, stealing, lying, etc., then the feeling component is as essential as the justification. "Objective," noncommital discussions of our own moral principles, conducted as though one were discussing the mores of some distant tribe about which one cares nothing, will lead young people to sense that it is not *morality* that is being discussed, and, perhaps, to view their own moral community as though it were that distant tribe. Finally, the social problems that most distress all of us and which threaten the very existence of our society—and I mean rising rates of juvenile crime, white-collar crime, casual deadly violence, corruption, and moral cynicism—result from the absence in people of the most simple, basic core of social morality. These so-

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cial problems do not arise from an inability to cope with "dilemmas," such as whether to steal a drug to save the life of one's dying wife, but are due to people who have no inhibitions whatever regarding theft; their cause is not ignorance of whether a physician should lie to a patient with cancer, it is people who lie whenever it suits them; not an inability to reason out how far pregnancy must progress before abortion is murder, but people who murder elderly women in elevators for ten dollars; and not confusion about whether affirmative action without numerical quotas is acceptable, but downright simple racism. So quite apart from the points made earlier about logical priorities, teaching the basic core of social morality is the most important component of moral education; it is not something to nod at *en passant* and dub "socialization."

Some objections

There are a number of objections that can be raised against directive moral education in public schools. I shall attempt to answer some of them.

1. *"Teachers, given their mind to be directive, will teach children racism, jingoism, anti-abortion, or the moral philosophy of Ayn Rand (or, to be sure we have horrors for everyone, communist morality, abortion, hatred of business, or casual sex)."* Well, a few teachers indeed do this and then it is a problem for involved parents and school officials. But the form of directive moral education I am defending no more recommends this than does Values Clarification or Kohlberg's theory. Moreover, I do not for a moment believe that any school program is actually neutral about morality, however much it attempts to be so. A teacher will find it easier to slip undesirable doctrines into a program that is officially non-directive than he will in a program which explicitly specifies a core of fundamental principles. And he will be more tempted to do so because there can be no guidelines or control over the moral content of a moral education program that pretends to have no moral content.

2. *"There is no way to tell which moral principles to teach and children will have to settle for whatever the personal values of individual teachers or principals happen to be."* It is, however, simply not true that there is no way to discover principles of social morality. One way, which Values Clarificationists ought to enjoy, is to play a game called "Societies for Sale": Ask yourself which principles of general conduct you would like to add, or delete, from

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our society, and then ask yourself whether it would sell—that is, whether or not people would opt to live in such a society. What if we dispensed with honesty or allowed violence as a legitimate way to satisfy wants? Perhaps, one might suggest, the strong would buy into a society that placed no restriction on violence, and the weak, one which allowed deceit. But the game has another rule, which comes from Immanuel Kant and John Rawls. When you imagine yourself buying into a reconstructed society, defined only in terms of the basic moral principles its members in general observe, it is by being born into it and you are not to know whether you will be born a person who is strong or weak, or for that matter, black or white, male or female, clever or slow. This rule serves to eliminate disagreement about the acceptability of principles that is based on special advantages one thinks one might have. I submit that no rational person, under these circumstances, would buy into a society that was not governed, to the extent human nature and other practical restrictions allow, by principles of honesty, fairness, keeping of contracts, avoidance of violence for personal gain, and willingness to work for what one wants but lacks. The rationality of this choice depends on the kind of cost/benefit analysis to which crime and immorality invariably lead: Given that you do not know what your personal situation will be, the odds are that the advantages to be gained by engaging in violence, theft, and deceit, will be outweighed by the costs incurred when others practice it against you. In our society, for example, although there are some exceptions, the advantage a criminal gains from his act is less than the disadvantage incurred by his victim. The same is true of all of the basic moral principles of our society: What a person gains by unfairness usually is less than the loss to the victim of his unfairness. Two conclusions follow. First, the absence of basic morality yields a net loss to the society as a whole; second, it is irrational for anyone to want to live in a society in which *everyone* is allowed to do the things our basic moral principles prohibit, because, of course, they will do unto him as he does unto them. From this we can conclude that a rational society will teach principles of basic morality.

Perhaps there are additional basic principles that nearly all rational people would buy, not knowing their personal situations in the resulting society. But there are many prohibitions that could not be sold on the terms described. An American society in which abortion, capital punishment, or nuclear weapons were morally prohibited would not be bought into by all, or even nearly all, rational

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persons. Such principles are non-basic and controversial, even under the game conditions proposed; therefore they are not properly part of the content of directive moral education for young children in the public schools.

I am not suggesting that there is no rational best answer to some of these controversial moral questions, only that on the criterion presented above, the answers I think are correct should not be internalized in young children through the agency of the public schools. For they do not have the support of the great majority of those who pay for the schools. This does imply that what schools teach should not be automatically determined by actual present majorities. But if we take rationality, which is rightly elitist, and democratic rule, which is not, and stir well, the result is necessarily a compromise: Empowered officials and majority electorates mutually pressuring each other, and producing, we hope, a long-term tilt toward rationality.

Older children should learn the pros and cons of moral issues as part of the second goal of moral education, which is to produce citizens who will seek the relevant facts and reason clearly about controversial cases. Nevertheless, even when moral controversies are discussed with teenagers, if one does not communicate the sense that factual accuracy and careful reasoning can produce an answer that is more likely to be justified than answers got by other means, it will be very difficult to explain why one should bother to reason carefully and search out the facts. Respect for reasoning and the facts presupposes that some answers to moral questions are objectively more rational than others. This is why even the mere use of the term "dilemmas" by moral educators makes me nervous. Outside academe, a moral dilemma is a situation in which bad will result no matter what one does, and that one must struggle to find the lesser of two evils. There is no suggestion that one never can find the best answer. And in the recently popular theories of moral education there is to be discussion of dilemmas and preferences, pro and con, but never any payoff. Reasoning is a tool; but a tool that does not get any desired results will be thrown away. So why should not a teenager conclude that moral reasoning is a pointless game, an impotent intellectual exercise?

3. *"When all is said and done, directive moral education is indoctrination."* Yes, but what of it? One needs to indoctrinate young children to be honest, fair, averse to violence, and the like. That is one kind of answer and its method is to reject the exclusively negative *emotive* meaning of the word "indoctrination," which

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moral educators have created in the various articles they write for each other.

Another answer, which I have elaborated elsewhere, is to retain the negative emotive meaning—thus conceding that indoctrination is a bad thing—but explain the *descriptive* meaning of the word such that it is clear that what I propose does not fall under that description. For example, it seems reasonable to limit the term "indoctrination" to cover coercive and deceitful kinds of influencing—such as browbeating students, not permitting open discussion, lying about the controversiality or consequences of a principle, or slipping one's own moral views into clarifying discussions or the format of dilemmas while pretending to be non-directive and morally neutral. These are genuinely harmful things and deserve to be called indoctrination, or alternatively, bad as distinct from good indoctrination. The mistake of a good many writers on moral education is that they define "indoctrination" as teaching children that *anything* is right or wrong. They really ought to stop doing that. Suppose that a school were to establish really fair and open policies and disciplinary procedures, and apply them conscientiously, with the aim of creating a moral atmosphere that was an effective model for students. According to the careless and confused concept of "indoctrination" that is assumed in the literature, this constitutes indoctrination because it influences students to have certain "values" rather than others.

Probably the best way to loosen up the anxiety that some teachers have been made to feel about openly inculcating honesty and fairness, and condemning their opposites, is to say, "Yes, that's indoctrination. Now show me what is wrong with it. Indeed, prove to me that neglecting to teach these principles isn't socially destructive."

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Anti-party politics

BYRON E. SHAFER

"Carter and Reagan—call that a choice?" The theme surfaced early in the columns of political writers across the nation and continued right on down to election day. Only this time these analysts succeeded in getting the pollsters to check on the "truth" of their assertion that a goodly share of the general public would really prefer "someone else." As a result, there was actually some hard evidence, both early and late, that less exalted Americans shared the disenchantment of these professional pundits.

How serious was this situation for American democracy? Not very, if history is any guide. For once the nominations are awarded, and the nominees square off, the public reliably picks up sides and rallies to what it perceives as the better of its options—as it did, decisively, in 1980. Indeed, how unusual was this year's apparent public disappointment? Again, not very. While precisely comparable polls are not available, there have been any number of pairings within the post-war period which have generated a similar, or higher, level of published complaint.

Yet behind these protestations about the choice available for November 1980 lies a more consequential set of questions. Neither Jimmy Carter nor Ronald Reagan were unlikely nominees for the

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system under which we now choose our presidents, as Harry Truman and Thomas E. Dewey were not unlikely nominees for the system under which we once chose them. How, then, does the current machinery for presidential nominations differ from that used 30 years ago? How do existing arrangements for selecting delegates to national party conventions shape the choice which will be available to the American public in November? And more importantly, what will the major-party nominees of the next 20 years look like if nomination procedures remain the same?

Party politics in the post-war era

Since World War II, there have been three separate phases of presidential politics in the United States, each with a different role for the major political parties, and thus each with a different overall system for creating presidential nominees. In every case, the critical difference between one period and the next has been a change in the role of the *political party* in what is rhetorically known as "the party's nomination process." And this role has changed —has declined—so regularly that a non-resident observer might now have difficulty finding it at all. Yet like the dog that did not bark, this "absence of party" is likely to be the crucial factor in explaining presidential nominations for some time to come.

In the first phase of post-war presidential politics, stretching from 1948 through 1956, party leaders, if they could reach any consensus at all, were able to *impose* a nominee upon the national party convention, and then back him in November with the party's regular machinery and its traditional issues.

The year 1952 showed this system at its height. In that year, the Democrats actually produced their nominee *at* the national convention. Adlai Stevenson was the choice of party officialdom, and it mattered little that Estes Kefauver had been seeking the nomination in the primaries and state conventions beforehand. On the Republican side, the regular party was no less active. But there, party leaders were forced to choose between their hearts, which still belonged to "Mr. Republican," Senator Robert A. Taft, and their heads, which counseled a "modern Republican," General Dwight D. Eisenhower, who was acknowledged to be their best vote getter. Remembering their status as members of the minority party, Republican leaders overcame their hearts, went with their heads, and nominated Eisenhower.

During the second phase of post-war presidential nominations,

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from 1960 through 1968, the party *as an organization* was still strong enough to *reject* presidential aspirants who were actively unacceptable to party leaders, but it could otherwise be wooed and coerced by candidates who espoused traditional party positions, and who seemed likely to respect traditional party prerogatives.

A comparison of the Democrats in 1960 and 1968 shows this system at its most fundamental. John Kennedy, we tend to forget, was also an outsider when he made his presidential bid. Yet whereas Estes Kefauver had tried to campaign *against* the party, Kennedy both courted and pressured it, while working hard to reassure party leadership about his electability and regularity. The party, under those conditions, accepted him. But in 1968 when Eugene McCarthy mounted a far harsher attack on the party itself—on its procedures, its programs, and even its active members—the party's leaders would not have him, though he was the sole remaining contestant from the primary campaign. And party leaders still possessed the clout to make their displeasure stick.

Now we have entered the third phase of post-war presidential politics. The hallmark of this period is that the party, as an organization, cannot select *and cannot even reject* its own nominee. Indeed, as an attempt to explain current nomination arrangements to someone schooled in European party politics would suggest, it takes real effort to find traces of "the party" in "the party's nomination process."

The year 1972 presented this pattern in as pure a form as any. For the Republicans, evidence of this shift from the second to the third phase of presidential nominations would in fact require one more election, in that then-President Richard M. Nixon had little difficulty in securing his renomination. But for the Democrats, nominee George McGovern was already as *anti*-party as any standard-bearer of the post-war era, and that orientation had actually been an advantage on the road to nomination. Regular party leaders, by contrast, who had rallied at the convention to boost Hubert Humphrey and stop Eugene McCarthy only four years before, were not even present in sufficient numbers to make a credible stab at the same maneuver.

The shift from the first period of presidential politics, which had featured "the party as nominator," to the second period, with "the party as evaluator," had little to do with party mechanics per se. Rather, it resulted largely from developments in the mass media, and especially in television. Through the marvels of TV, the country became ever more national in focus, and as it did, the out-

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sider strategy acquired more potential for success. On the other hand, the role of the political parties remained sufficient to prevent outsiders from realizing their potential *unless* they could make their peace with the party, as an organization and as a body of ongoing programs.

The shift from the second to the third period, however, from an era of "the party as evaluator" to the present days of "the party as shell," was intimately linked to the formal process of delegate selection and presidential nomination—i.e., to "party reform." This time the change in the way we shape our presidential choices came not by accident, but by design. And unless that system is "designed" further, its effects seem likely to remain with us.

Into the anti-party age

Most Americans who take any part in nomination politics recognize one major result of deliberate party reform—the tremendous growth in the share of national convention delegates selected through presidential primaries. And this, in itself, is a change of extreme importance.

At the most basic level, primaries immediately dilute the influence of political parties both because they replace the devices by which party officials themselves once chose the delegates, and because they offer an open arena for groups and individuals with no continuing connection to the party. But beyond that, presidential primaries revolve crucially around the level and characteristics of primary election turnout, rather than around such previously influential factors as political experience and party service. Turnout, in fact, is often quite low, and primary voters are usually quite unlike party voters in November. Finally, as both a result of and further contribution to all these changes, primaries provide a vastly increased role for the formal media of communications.

Yet it is not just primaries in general, but a particular kind of primary which has come to dominate the presidential nomination process. And among the states which still select their national-convention delegates in a state-level convention, it is not the old-fashioned party gathering but a new participatory substitute which predominates.

The original form of the presidential primary, what we might call the "delegate primary," simply featured the names of all contenders for delegate to the national convention, along with some identifying mark (home address, occupation) but without any can-

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didate endorsement. Delegates could, of course, campaign for election by stressing their preference for a certain candidate, but they could also campaign by saying that "you know me, Joe, and I know you." As a result, the delegate primary tended to send local leaders to national party conventions. Sometimes these were general community leaders, such as mayors and councilmen. Sometimes they were subcommunity leaders—racial and ethnic spokesmen, community activists, or even church figures. Otherwise, they were local *party* leaders.

When the Democrats banned this type of selection after 1968, the "candidate primary" became the sole means of choosing delegates in the growing number of primary states. In such a system, the *candidate's* name, not the local leader's, becomes crucial. Voters must pick a presidential contender, and some other device will create the delegates who actually go on to the convention—ostensibly to represent those voters who began this entire chain. Because delegate hopefuls must identify early with one particular candidate, many local leaders, even when they do get to participate, simply choose the wrong contender and disappear along the way. But the candidates themselves ordinarily prefer delegates whose principal loyalty is to them, not to a local community or subgroup, and not even to a larger political party. As a result, fewer and fewer local leaders, of whatever stripe, end up at the national "party" conventions.

If this had been the only reform initiative, some modicum of influence for political parties, and for the virtues peculiarly attached to them—political experience, partisan program identification, and coordination of an eventual government—might have been retained through state convention systems. Indeed, the original form of the state party convention was the device which was kindest to an organized political party. In that system, usually dubbed the "party caucus," grassroots party officials met in a county convention, which chose delegates to the state convention, which selected the national convention delegation. The process, obviously, remained in the hands of party officials from beginning to end. Under those conditions, the delegates reliably included spokesmen for the major interest groups associated with each party—labor union officers for the Democrats, for example, or farm organization leaders for the Republicans. They also included a few honorific selections from elected officials generally. Otherwise, they were made up, overwhelmingly, of regular party spokesmen.

But when the Democrats banned this device as well, they effec-

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tively eliminated its moderating influence on the impact of presidential primaries. What remained for those states which still opposed a primary system was the "participatory convention," where anyone who came out to an open meeting at the bottom level of the process could help choose the delegates to the next highest convention, and so on. And what resulted, naturally, was a contest in "caucus packing," pure and simple. Sometimes the local party itself packed its new-style caucuses, and nothing much changed. More frequently, however, the candidates' organizations played the dominant role, and once again, their recruits were often actively hostile to local party leaders and almost always preferred delegates whose principal loyalty was to the candidate in question. Sometimes turnout was so low and so socially aberrant that the dominant participants were tied neither to the party nor to the candidate, nor even to the community at large.

In fact, when many of the former party-caucus states realized that candidates or activist outsiders could now pack their suddenly permeable party gatherings, they too switched to presidential primaries, thus swelling the candidate primary total. The result was thus a shift, in our terms, from the second phase of post-war presidential politics to the third—to the anti-party politics of the current era. And while it might seem that this should have happened almost solely within the Democratic party—these were, after all, Democratic reforms—the same result followed for the Republicans. For in most states, the Democrats controlled state government, and when they wrote themselves a new primary law, they wrote their party opponents into it as well. In consequence, the Republicans —a little more slowly, a little less comprehensively—moved into the anti-party era as well.

Campaigning after reform

How do Presidents Carter and Reagan fit into this reformed politics? Do they confirm the expectations which result from an examination of the reformed nomination process? And if they do, is it possible to extrapolate, to address the question of the available choice in all those quadrennial Novembers which will succeed 1980?

The raw material for some answers must come initially from 1976, the year in which Mr. Carter and Mr. Reagan established themselves as the logical favorites for 1980. In fact, the strategies of these two men in 1976 illuminate the two plausible routes to a

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presidential nomination in a system dominated by candidate primaries, and supplemented by participatory conventions. Finally, because these prior strategies do illuminate the two main approaches to a nomination, they make 1980 the obvious test case for the operation of reformed nomination machinery—a test which has confirmed the lessons of 1976 with a vengeance.

On the Republican side in 1976, the party was apparently in reasonable health, considering the trauma of the Nixon resignation. At least, it still possessed a sitting president, always an outstanding asset in American politics. Moreover, polls continued to show him as the choice of the party faithful. And party leaders, as they always do, not only preferred to renominate their president, but actively wanted to see him renominated without opposition.

Even so, Ronald Reagan almost managed one of the major feats of American political history. That is, he almost managed to dump a sitting president—albeit an unelected one—within his own party. The reason he could come so close, of course, lay almost entirely with the reformed nomination process. Party leaders, for example, might have strongly preferred to renominate Gerald R. Ford, but party leaders no longer had as much of a role in presidential selection. Similarly, the rank-and-file might have appeared partial to the same result, but primary *turnout* had become the crucial consideration in making their sentiments known.

Turnout in presidential primaries rarely exceeds half of the eligible and often drops below a quarter. As a result, self-selection among the rank-and-file becomes crucial. And at the primary election stage, only the most intense partisans—usually the most ideologically committed, occasionally the most alienated, and sometimes just the most highly educated—actually get to the polls. Mr. Reagan pitched his campaign to these individuals, by emphasizing his adherence to fundamental (and unadulterated) Republican values, and among these primary voters, he more than held his own.

Mr. Reagan's campaign in 1980 offered more of the same, but in the absence of an opponent who could use the status and perquisites of the presidency in a countervailing effort. And this time, without those impediments, he conquered easily. The Reagan campaigns of 1976 and 1980 thus represent one of two available routes to success under reformed rules of nomination: Establish yourself as the embodiment of basic party principles at their maximum extension, rely for your campaign upon those activists who will be motivated by these same concerns, and trust that the more ideologically committed among the party faithful will turn out and provide the

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margin of victory. The Reagan examples, however, should not suggest that this strategy is specific to one party: George McGovern followed essentially the same approach in his quest for the Democratic nomination of 1972.

In the aftermath of George McGovern, however, and in sharp distinction from Ronald Reagan, the Carter campaign of 1976 demonstrated that there was a second route to a major-party presidential nomination in a reformed world. Unlike McGovern, who had emphasized his (relatively extreme) positions, Mr. Carter played down his specific stands, and sought instead to portray himself as a man unimplicated in the existing mess, and one who symbolized the basic values of most Americans—who could give them a government "as good, and honest, and decent, and truthful, and fair, and competent, and idealistic, and compassionate, and as filled with love as are the American people."

In this, Mr. Carter also benefited from a run of good luck. As events actually developed, he upset the Iowa caucuses, captured the New Hampshire primary, skipped Massachusetts, and went on to wipe out George Wallace in Florida. From there, he coasted out. Yet he had captured New Hampshire only by seeming the lone moderate/conservative in a liberal field. And he had captured Florida principally because he had won in New Hampshire, with the massive dividends in news coverage—vastly increased name recognition, a *Time* magazine cover—which that always entails.

So perhaps he was lucky. Yet his success did confirm the possibility of beating the new delegate selection arrangements with something other than sharply etched positions and postures. After Carter, it was evidently possible to beat those arrangements with an emphasis on character; with an opposition to 'politics as usual'; with an avoidance of traditional party issues and traditional group identifications; and with a reliance upon the highly educated and/or highly alienated within the primary electorate—all tied together and pumped up with a heavy dose of favorable early publicity.

Jimmy Carter's 1980 primary strategy, then, was to require only a modified version of the 1976 approach, one suitable for an incumbent president. Again, he would emphasize character, in the form of a "presidential" demeanor. But this time his stance above the battle —above subgroup identifications and specific policy promises— could be buttressed by events abroad, permitting him to campaign during the primaries by symbolizing America to his fellow Americans. And no incumbent, not even an incumbent saint, should be expected to forego that opportunity.

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Plan A, Plan B, and the Old Politics

Both of these strategies—"Plan A," involving ideological distinction, and "Plan B," centering on the embodiment of values shared by almost everyone—contain both benefits and costs for citizens concerned with their presidential choices over time.

Candidates who offer stiff positions on issues, and on lots of them, and who back this up with an evident disinclination to compromise, do have certain theoretical advantages for presidential selection. For example, they do present a clear-cut option to the voters. And they do offer the hope—or at least a precondition—for a serious reorientation of government itself. Their liabilities, however, are no less evident. By surrendering the political center in the interests of ideological clarity, they provide a wise opponent with nearly all the advantage he needs. And even if they were to prevail and reach the White House, deadlock, rather than redirection, would still be their most likely contribution to government.

Candidates who follow the second approach differ all along the line, and their potential contributions and subtractions differ accordingly. Where "Plan A" strategists seek to mobilize a sharply defined stratum of Americans, "Plan B" advocates seek to appeal to "everyman." Such candidates offer the voters a chance to affirm the basic values which unite the nation, and they pledge themselves to the highest standards of probity in the leadership of any subsequent government. On the other hand, by offering so few policy promises or subgroup commitments, these contenders provide little real opportunity to judge what the new government will actually look like. And because they take their disengagement from groups and policies into office with them, they ordinarily lack the reliable allies who could make it possible to govern effectively.

Unfortunately, it is the liabilities in both plans which are accentuated by the existing American political system. For when these nomination strategies are put back into the context of American two-party politics, each poses additional problems for the general election—and hence each functions as an additional impediment to public control of presidential politics.

Because the status of the two major parties differs, the dilemmas which these various nomination strategies present to them will differ, too. For Republicans, the strategic problem is simple, even if its resolution is more complex. Theirs is the minority party, and they must thus reach well outside party boundaries in order to win. That their problem is not insoluble is made clear by the fact that Republicans have held the presidency for 16 of the last 32

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years—and have just won it once again. Yet one of the two new nomination strategies—and the one most likely to afflict Republicans —must decrease the party's overall chances, because it is so hard to reconcile with the party's fundamental strategic task.

"Plan A," the option featuring exaggerated party positions and a pose of no-compromise, makes the general election status of a Republican difficult, for it threatens to draw the nominee further back into his own minority. Yet in reformed presidential politics, this plan is nonetheless likely to have a strong attraction for Republican contenders. Because their party is the acknowledged preference of less than a quarter of all Americans, and because turnout in its reformed primaries and conventions is both low and skewed, something less than 10 percent of the American public—perhaps even the most conservative 10 percent—should be able to control Republican nominations. When they do, of course, the liabilities of presidential politics under "Plan A" are most likely to display themselves.

Successful prospects for this particular nomination scenario are hardly unique to Republican intraparty politics. Yet it is "Plan B," the strategy of avoiding both group and policy commitments, which is more likely to afflict the Democrats, albeit with similarly unhappy results. Because theirs is the majority party, the strategic task of Democratic nominees would seem considerably simpler than that of their Republican counterparts: If most admitted Democrats are merely held to their traditional loyalties, the Democratic candidate should win the general election. On the other hand, the fact of majority status does mean not just that the party is larger but that it is more diverse—and therein lies both the appeal of "Plan B" and the risk it carries for November.

A potential nominee who is closely identified with some subgroup within the Democratic coalition does have an initial advantage in the quest for a nomination. He possesses ready-made supporters; other candidates must search for theirs. Yet the same advantage can become a liability as the campaign progresses. Other voters may prefer someone who is directly attached to them, too, or who is at least no more closely attached to some other group. When party leaders played a major role in the nomination process, they could prevent the resulting "negative" or "protective" voting by building a coalition among leaders of the various subgroups within the party. That is, they could *bargain*, to permit such candidates to expand their initial bases without frightening the rest of the party's voters. But under reformed politics, any and all such transac-

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tions must be handled—"fought out" is more like it—in the voting booth alone.

Enter "Plan B." Candidates with this as their strategy begin with the necessary absence of identification with anyone in particular. If they can still manage to get their campaigns off the ground—by capturing a small but crucial early contest, or by defeating an ostensibly major candidate—they may be able to go on to a nomination. Yet "Plan B's" potential for success *within* the Democratic party brings correspondingly high costs for the general election. At a minimum, a nominee who has captured the nomination without group identifications or policy stands is in a singularly bad position to activate traditional group allegiances and program loyalties for November. And if rank-and-file Democrats should decide that they *know* what the Republican nominee represents—so that he becomes, if not an attractive commodity, at least a safe one—while they cannot tell what "their own" man might do, they become much more likely to stay home, or to jump the fence.* Moreover, a "Plan B" nominee probably cannot improve his election prospects by abandoning his previous strategy, since such an about-face would surely alienate those who were initially attracted to him, without reliably gaining the trust of those who are being asked to believe in a newly reconstituted candidate.

It would not be accurate to say that unreformed nomination arrangements never fell prey to these same strategic problems. After all, landslide wins (and losses) occurred in the pre-reform world, too. Nor would it be accurate to claim that the old arrangements did not have vices to spare. Covert party meetings, restricted primary ballots, etc., were not as uncommon as strong-party advocates prefer to believe. Yet the old system did have built-in means for dealing with recurring strategic problems, and it did have institutionalized virtues of its own.

What were strategies and campaigns like when the party still had a major role in its own nomination process? First, nomination campaigns were both much shorter and much longer than they are today. Because party leaders could influence the disposition of many

* This appears, in fact, to be what happened to Jimmy Carter between the convention and the election in 1976. Coming out of the convention, his lead was so impressive that he might almost have begun picking Cabinet officers. Yet by November 3, his margin was so slim that both candidates sat down to watch the returns with reasonable hopes for victory. And the voters who had fallen away in the meantime were precisely those who saw no clear identification with traditional Democratic programs and traditional Democratic subgroups, but who felt that they could at least live—predictably—with the Republican alternative.

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delegates, there was little point in starting an explicit campaign for the nomination two years—or even four years—beforehand. But at the same time, serious contenders had actually been courting state and local party (and community) leaders for much of their adult lives through speeches, fund-raisers, and campaign appearances.

What this meant, of course, was that the most plausible candidates tended to embody the dominant issue positions and group identifications of their parties. Democrats supported the welfare state, felt at home with union leadership, and identified with civil rights. Beyond that, they lived comfortably with the organized party, recognized its claims on the rewards of government, and *used* it in pursuit of their own governmental goals. Such arrangements favored mainstream, organization candidates, though not excessively or exclusively. They still permitted "blue-ribbon" nominees like Stevenson; they merely forbade "mavericks" like Kefauver. They still permitted "big-spenders" like Hubert Humphrey, even when they might be temporarily out of step with the mass public; but they squelched candidates like Eugene McCarthy who insisted on "fundamental redirection." And if the pre-reform nomination process promised a general, and generally coherent, set of policy positions, it also guaranteed a sizable amount of political experience, and usually of political contacts and acquaintances as well. This "prior training" in national politics was hardly all that a sitting president would need, but it was certainly an important initial asset.

For the Republicans, much the same can be said. Yet a party-based process promised something extra for them. It constituted added insurance that the party would attempt to offer candidates who could appeal beyond the party's usual limits and be "plausible alternatives" to the Democratic selection. Put somewhat impolitely, the pre-reform world tended to produce *a Republican who was a moderate and a Democrat who was a Democrat.*

Restoring some virtues of party

Where does this leave those who would hope to blend the virtues of the old nomination arrangement with the virtues of the new? Nostalgic laments to the contrary, it is not possible to "return" to the period when the party itself could function as a nominator, or even to the days when it functioned as the evaluator of last resort.

Partly, this inability to return is rooted in the politics of reform itself. Those political actors who desired (and who benefit from?) the new system would be moved to open warfare by an insistence

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that reform has failed, and that *retrogression* must be the answer. And even the general public is not likely to stand up and salute an opportunity to turn the nomination decision back to "the party bosses."

But the inability to turn back the clock is a function of an even more practical constraint: There simply are very few party organizations which rival those that operated under earlier systems of delegate selection. The Corning machine in Albany, New York, is a vigorous museum piece. The Chicago organization may (or may not) recover its old vitality. And the Philadelphia City Committee still counts for something. But beyond these, there is little left of "the organized party" in the stereotyped sense.

Yet this second constraint has a number of other implications, too few of which find their way into arguments about party reform. For example, it also means that many of the areas in which the political party has not decayed totally—where there are indeed occupants for most party offices—are areas in which "the party" does not look at all like "the machine" of old. Party office-holders (ward leaders, county chairmen, and the like) are primarily volunteers, often doing the truly thankless work of party politics more for its innate fascination (the "scent of power," if you will) than for any tangible reward.

Parties composed in such a fashion nonetheless work much like the parties of old for our purposes—that is, for the virtues which they can add to a presidential selection system. They do permit the development of political careers, and political experience, over time. They do foster association with a gradually changing but generally coherent party program. And they do permit bargaining among various members of the party's total coalition, so that politics can be constructive, and not just protective. Yet they don't *look* like the parties of old, and they ought not to be discussed as if they did. What might be done, then, to inject some of the virtues of a party-based system into the current nomination process, while containing some of the vices of anti-party politics?

Most generally, the states and localities within both parties should be free to design delegate selection arrangements which are appropriate to their own state and local politics. They cannot be limited to a single form of the presidential primary and a single form of the party convention. Two options cannot possibly be sufficient for the variety of settings and cultures that exist throughout the United States.

Consider a hopscotch trip from Rhode Island, to Pennsylvania,

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to Nebraska, to Texas, to Idaho, to California. And then seriously assert that one system for delegate selection will fit them all. It cannot be done. And when it is done, the anomalies which result become the vices of reformed presidential politics—unrepresentative primary electorates and artificially stacked caucuses, nomination campaigns with a flagrant disregard for the strategic requirements of the general election, ideologically extreme or politically inexperienced nominees. That is not to say that state delegate selection should proceed without explicit and detailed rules. Nor is it to say that any and all practices are permissible once they are covered by written regulations. But the current artificial constriction of state choice is a major reason for political distortions in the choice available to the general public in November—and thus for public disappointments with the product of reformed presidential nominations.

What, then, are some specific moves which individual states might take on their own, if they were at liberty to design localized arrangements for delegate selection? How would these moves alter the total nomination process?

First, in those states where nothing resembling a classic political party exists, where most party offices cannot even be filled, and where the party's presidential nominee always faces dim prospects in November, *allow the localities to substitute their actual leadership for the nonexistent party leaders.* In short, encourage local areas to elect local leaders as delegates to the national party conventions —public officials, racial and ethnic spokesmen, heads of community organizations, and so on. At best, do not permit prior accidents of presidential connection to interfere with such selection at all. At least permit the winning presidential contenders to assemble their delegates from among these local leaders *after* the primary or convention.

Obviously, the heart of this suggestion requires revival of the delegate primary to equal status with the candidate primary. And in the majority of states which will surely stay with the candidate primary, it means letting the candidate—not some unseen and unknown gathering of his erstwhile supporters—select those delegates who will be most helpful in building a campaign for November. In convention states, the same outcomes are equally desirable, but probably hopeless. As long as "participatory conventions" are organized around caucus-packing by presidential contenders, the possibility of using them to tap local leadership is probably unrealizable.

How would the forwarding of real local leaders to the national

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party conventions help? First, such leaders have *constituencies.* That is, they have groups of interested observers who will look for dividends from sending their spokesmen to the national convention, and who will hold them accountable—and punish them—if their actions are inappropriate. The accountability of leaders to their constituents, in turn, makes it far riskier for these new convention delegates to indulge their ideological fantasies by endorsing extreme candidates or to ratify primary-election outcomes in other states when the victor promises no clear advantages for constituents back home. Moreover, this permission to send real local leaders to the conventions as a substitute for the non-existent party leadership would be most relevant precisely where the need is greatest. That is, it would affect those areas which tend to be attracted by the more extreme contestants for the party's nomination or by contestants who have little attachment to ongoing party positions.

Second, in those states which the nominees of *both* parties stand some chance of carrying in November, which are thus crucial to everyone's prospects for success, but where the party as an organization may be of very mixed strength, *allow the state to compensate for any weakness by manipulating its delegate allocation rules.* That is, permit the state to allocate delegates among presidential contenders in a manner which will compensate for the injuries of reform—injuries which result from the best of intentions, but which lead to undesirable presidential choices in November.

In the past, there were three major allocation formulas—winner-take-all by state, winner-take-all by district, and proportional. At that time, and partly as a *result* of the availability of all three formulas, there were two factors which made a state's primary (or convention) important. One was size alone; the other was the date, relative to other states, at which a given state actually selected its delegates.

When the Democrats banned everything but proportionality, however, and as the Republicans in many states were dragged along, the importance of state primaries and conventions changed, and temporal placement alone became the dominant factor. What this meant, for example, was that a narrow win in New Hampshire (22 delegates for the Republicans, 19 for the Democrats) coupled with a narrow loss in Pennsylvania (83 Republican delegates, 183 Democratic) became *preferable* to a narrow loss in New Hampshire and a narrow win in Pennsylvania!

Everyone understands part of the explanation, that the opening

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contests, the New Hampshire primary and perhaps the Iowa caucuses, can shape whatever develops later in the campaign. But few consider the rest of the story: that states like Pennsylvania can no longer compensate for chronological placement because they are required to select their delegates under proportional rules. Yet if a win in Pennsylvania were worth 183 delegates while a win in New Hampshire were worth 19, some of this inequity would be quickly rebalanced.

Why would this introduce compensating virtues into the process of presidential nominations as a whole? What is it about allowing states to manipulate their rules for delegate allocation which would mitigate the unhealthy outcomes of current arrangements? First, this permission would allow the larger and more competititve states to refocus the primary election campaign within their own boundaries. At the very least, the big states could thus compensate for any losses to smaller states with better calendar positions. At best, if the big states were also internally competitive, they would then reliably draw the major contenders for head-to-head combat there. And once again, the states which would benefit most from this option are exactly those which must be influential if the major strategic miscarriages of reform politics—a nominee whose positions are beyond the existing policy consensus, or one who provides no real positions at all—are to be avoided. For the Republicans, the large industrial states, because they are competitive, are precisely the states in which Republican politics requires—and rewards—an attempt to reach out beyond the party's hard core. For the Democrats, these same states have been the bedrock of the party's national program for the past 40 years. For both parties, accordingly, they can function as a crucial corrective to more destructive party temptations—if they are permitted to do so.

Third, for those states where there really is something of a statewide party, or where there are several strong local parties, *allow the state to capitalize on its existing party organization*. This would mean, of course, permitting the state to use an obviously party-centered process for delegate selection. And that would mean, in turn, resuscitating the party caucus, and making it acceptable as the participatory convention.

What would such a reform accomplish? First, it would guarantee a healthy leaven of regular party leaders at each national party convention. At a minimum, this would build into those conventions a concern with winning the November election as the *sine qua non* of party politics. Beyond that, it would constitute at least the

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preliminary steps toward maximizing the nominee's chances of actually *governing*, should he win. Over time, the continued presence of regular party leaders, and their continued belief in the importance of winning and governing, would begin to recreate the party's career ladder, by which individuals can work their way gradually toward the presidency—learning (and being tested) as they go. Likewise, this continuity would foster a concern with the party's overall prospects—with all those other candidates who wear the party's label and who can contribute so much if they are elected, and if they feel some attachment to their party.

This is, admittedly, the type of reform which would make those who call themselves "party reformers" most nervous. Yet it follows inevitably from an analysis of the virtues of the old party-based system of presidential nominations and of the vices of the newer anti-party politics. And it loses many of its fearsome aspects if it is not envisioned solely as a device of "party machines," but of their more volunteeristic successors as well. Moreover, if it must be admitted that a *uniform* system of party caucuses might well be unattractive, that is hardly the probable outcome of permitting states to use the device. Indeed, the party caucus would be feasible only in those states with the very strongest political parties, and it would surely not be adopted in all of them.

Would a world with increased state options for delegate selection look dramatically different from the present one? I fear not. What an expanded array of nomination machinery might produce, however, is the addition of some virtues from previous eras of presidential selection to the evident virtues of the current age, without the pretense that we can "go back" to bygone days. And in a matter as important as presidential selection—as presidential choice—this is, I submit, no small virtue.

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The Consumer Price Index: measuring inflation and causing it

ROBERT J. GORDON

INFLATION is widely believed to be the most important economic problem facing the United States and most other countries in the world. Thus it is not surprising that the monthly publication of the U.S. Consumer Price Index (CPI) is so closely watched both inside and outside of government. Large increases in the CPI are bad news for Administration officials, particularly in election years, and may lead to sudden policy reversals such as the introduction of the Carter Administration's ill-fated credit controls in March 1980. Large increases in the CPI, however, are good news for millions of recipients of social security benefits, government retirement pay, and other payments that by law or contract must be escalated in step with the CPI. Also, since foreigners watch the CPI closely for clues to the future course of U. S. interest rates and the exchange value of the dollar, the CPI is probably the single most quoted economic statistic in the world.

Imagine that someone pushes the wrong button on a computer at the Bureau of Labor Statistics (BLS), the division of the Department of Labor that is responsible for the CPI, and records that the increase in the CPI over a particular year is 15 percent instead of the true rate of 10 percent. Government officials would probably react with restrictive policy measures—some combination of expenditure

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reductions, tax increases, and higher interest rates. Thousands, perhaps millions, of Americans might be thrown out of work. Millions of others receiving social security benefits or union wages escalated by the CPI would enjoy a windfall gain, since their payments would go up by more than the true inflation rate. The unnecessary extra benefit payments would cause the government deficit to balloon, putting extra pressure on the Federal Reserve to print more money and finance still more inflation, while the higher union wage payments would put pressure on firms to raise prices faster than otherwise.

Exactly this chain of events occurred in the United States in 1979 and 1980, but not because of an easily correctable slip by BLS. Instead, a serious overstatement of inflation by the CPI was caused by built-in design flaws. These defects have come to light not through the snooping of some measurement-minded Woodward or Bernstein, but rather as a result of a growing discrepancy between the CPI and a competing government measure of consumer prices called the "Personal Consumption Expenditures deflator," published by a division of the Department of Commerce, and usually called the "PCE deflator" for short. Table I shows that after registering only a small difference in early 1978 and most earlier years, the inflation rate recorded by the two indexes grew apart by an amount that reached an annual rate of 5 percent in the first half of 1980.

The story of the two inflation indexes is a fascinating one, even for those whose eyes glaze over at talk of measurement procedures and who prefer to treat government economic data as unchallenged gospel. Since the CPI and PCE deflator are compiled from a common set of underlying price data by two different sets of rules, part of the tale involves the rules themselves, why they lead to different

TABLE I. *Inflation Rates as Estimated by the CPI and PCE Deflator (Percentage Changes at Annual Rates)*[*]

		CPI	PCE DEFLATOR	DIFFERENCE
1.	1947-77	3.4%	3.3%	0.1
2.	1978-80 by half year			
	1978, first half	8.9	8.3	0.6
	1978, last half	9.0	6.8	2.2
	1979, first half	12.6	10.0	2.6
	1979, last half	13.0	9.8	3.2
	1980, first half	16.2	11.2	5.0

[*] Source: CPI from Bureau of Labor Statistics; PCE Deflator from *Survey of Current Business*, various issues. These figures do not reflect the data revisions announced in December 1980 for the PCE deflator. A preliminary inspection suggests that the inflation rate of the PCE deflator in the new data is between 0.5 and 1.0 percentage points *lower* for each period shown since 1977. Because the CPI has not been revised, the difference between the two indexes has been further enlarged by the revisions.

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results, and why the CPI rules are widely believed to be inferior to those used in the PCE deflator. Another aspect involves the internal workings of the BLS, where staff bureaucrats have long urged the replacement of obsolete rules for the measurement of housing prices but were forced by political pressure to retain the old rules in the new version of the CPI introduced in 1978. A final and less-reported chapter involves the adequacy of the underlying price data that both the CPI and PCE deflator share in common. These form the basis for all economic measures of real economic progress, or the lack of it, including those that show a drastic slowdown in the growth of U.S. productivity in the last decade. How effectively do official procedures handle innumerable situations when a new model or product costs more than the item it replaces, but differs in quality as well? New radial tires last longer than the old bias-ply type, and recent-vintage television sets both perform better and need fewer repairs than their predecessors. But if price indexes are not adjusted adequately for these quality improvements, inflation is overstated and the improvement in our productivity and standard of living is understated.

A two-class society?

The CPI was first published by the BLS in 1919 to help set wage levels for workers in shipbuilding yards, and its use as a standard for wage increases has always been one of its main purposes. Currently about 8 million workers are covered by collective bargaining contracts that provide for increases in wage rates based on increases in the CPI, and these wages set a pattern that millions of other workers try to emulate. More recently, many types of government payments have been linked to the CPI. Among those who reap a windfall if the annual CPI increase is overstated are 31 million social security beneficiaries and 2.5 million retired military and Federal Civil Service employees and survivors. Others receive payments geared to a particular component of the CPI, especially 20 million food stamp recipients and 25 million children who eat federally subsidized school lunches. In all about half the population, including dependents, is affected by changes in the CPI.

The use of escalator clauses has created a two-class society, separating those who are protected against inflation, legally or by contract, from those who are not. Steelworkers, Chicago bus drivers, and other union members enjoying generous escalator clauses have moved several steps up the relative income ladder at the expense

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of white-collar workers and others whose wages are not escalated. Social security recipients enjoyed a 14.4 percent boost in benefits in July 1980, as compared to an increase in the government's average hourly earnings index of only 9.2 percent in the year ending that month. Use of that earnings index rather than the CPI for escalation in 1980 would have reduced the federal deficit by about 8 billion. Use of the PCE deflator would have been almost as desirable, saving about $6 billion.[1] Thus some of the much-discussed financial crisis of the Social Security System results from the use of the CPI for escalation purposes.

While adjustment of payments is the most tangible function of the CPI, there are two other uses which figure prominently in discussions of economic performance and policy. The first and most obvious is that the CPI itself is a readily available measure of inflation and serves as a widely-quoted verdict on the success or failure of economic policy. The second is that the individual CPI item indexes for pork, gasoline, and other products are the sources of other price indexes. The CPI and PCE deflator displayed in Table I are both based on the same price-change data for pork and gasoline, but they combine these individual item indexes with different weights. Because the Commerce Department procedures put less weight on energy prices, which rose rapidly during the 1978-80 period (as well as no weight at all on mortgage interest rates), they yield a slower overall increase when the PCE deflator is added up. It is the PCE deflator, and the broader "GNP deflator" of which it is a major component, that allow the Commerce Department to translate data on current-dollar sales and personal income into quarterly estimates of real Gross National Product, the basic measure of the economy's productive performance.[2] Real GNP, in turn, is divided by BLS data on hours spent at work to yield data on the nation's hourly productivity.

The ever-changing market-basket

The CPI reports the price in any given month of a so-called "fixed market-basket" of commonly purchased items. Today's price of the

[1] The actual social security increase was based on the CPI change in the twelve months ending in March, 1980.

[2] About two-thirds of Gross National Product consists of Personal Consumption Expenditures deflated by the PCE deflator. The other third consists of construction spending, business equipment purchases, government wages and purchases of goods, and the excess of exports over imports. Each of these other components has its own deflator based on a wide variety of data sources.

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market-basket is expressed relative to what the same items would have cost in 1967, the arbitrary "base year" of the index. As shown on the top line of Table II, the CPI was at a level of 251.7 in September 1980, indicating that items costing $10,000 in 1967 would have cost $25,170 if purchased in September 1980. Public attention tends to focus on recent changes in the CPI rather than on the cumulative change since 1967. Thus, newspaper reports do not highlight the index level of 251.7, but rather the change over the past year and month. In September 1980, the change in the CPI over the previous year registered 12.7 percent, and the change from August to September was 1.0 percent, usually expressed at an annual

TABLE II. *A Sample of CPI Item Indexes, September 1980.*[*]

	INDEX LEVEL (1967=100)	PERCENT CHANGE FROM SEPTEMBER 1979
All Items	251.7	12.7
White Bread	219.6	9.4
Sirloin Steak	280.9	11.9
Eggs	179.9	5.4
Potatoes	313.2	57.2
Roasted Coffee	426.1	0.0
Whiskey	137.6	6.7
Residential Rent	195.1	9.0
Contracted Mortgage Interest	500.9	26.3
Fuel Oil	585.4	21.3
Telephone Services	137.0	3.5
Television	105.0	2.0
Women's Dresses	168.5	-1.5
New Cars	181.7	9.4
Airline Fares	310.3	44.9
Hospital Room	428.4	13.8
School Books and Supplies	221.0	9.7

[*] Source: *Consumer Price Index Detailed Report*, September 1980.

rate. The sense of panic that surrounded the Carter Administration's economic policy in March and April of 1980 was directly set off by three consecutive monthly CPI increases of 1.4 percent, or 18.2 percent when expressed as an annual rate.

The task of constructing the CPI involves (1) determining what people buy, (2) determining where they buy, and (3) determining what they pay for what they buy. The first task was carried out by the BLS and Census Bureau in 1972-74 and involved quarterly interviews with about 20,000 families and a survey of another 20,000 families who were asked to keep diaries of small, frequent purchases for two weeks. Because this effort of carrying out the Consumer Expenditure Survey is so complex and expensive, Congress is only

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willing to allocate funds for such a survey every decade. The previous Consumer Expenditure Survey had been carried out in 1960-61 and was the basis of the CPI until 1977. Thus in late 1977 the "old CPI" was based on expenditure data that were sixteen years out of date, and the "new CPI" introduced in 1978 was based on an expenditure survey that was already five years out of date.

Determining where people buy, so that the right amount of information might be collected from particular retail outlets, discount stores, and mail-order houses, was accomplished by a "point-of-purchase" survey of another 23,000 families in the early 1970s. This scientific basis for the collection of price data represents a substantial improvement on the arbitrary choices of outlets in the CPI for earlier years. With the allocation of individual items and retail outlets established by these various surveys, the month-to-month job of collecting the actual price quotations is carried out by BLS data collectors who have considerable latitude to choose the specific brands and types of goods to be priced each month within the general item definitions laid down by the central BLS office. An incredible total of one and a half *million* individual price quotations are obtained each year, of which 700,000 are for food, 100,000 are for rent and property taxes, and the remainder are for other items. Data sources, called "reporters," include about 2,300 food store outlets, 18,000 rental units, 18,000 housing units, and 22,300 other sources.

The importance of weighting procedures

Every month the CPI publishes an overall index, summary indexes for major groups of items like food and apparel, and about 250 item indexes, a few of which are shown as examples in Table II. What is striking here is the wide variety of price increases registered by different items since 1967, ranging from 5 percent for television sets to 485 percent for fuel oil. Clearly the overall inflation rate registered by the CPI depends on how much weight is attached to each item. Someone who spends equal shares of his income on rent, TV sets, telephone calls, eggs, and whiskey, would have experienced a price increase since 1967 of only 51 percent, or a compounded rate of only 3.2 percent per year. Someone else who spends equal shares on steak, potatoes, coffee, fuel oil, and mortgage interest, would have experienced an increase since 1967 of 321.3 percent, or a compounded rate of 11.7 percent per year. Since average hourly earnings increased by 7.5 percent over the same period, the

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first spending pattern would have allowed a substantial increase in real income, whereas the second pattern would have resulted in a drastic drop in real income.

Consumers are under constant pressure to shift their spending patterns to avoid goods that have unusually high price increases—for example, to reduce fuel usage in favor of wool sweaters, or to shift from coffee to whiskey. Any index like the CPI that uses fixed expenditure weights must exaggerate the inflation rate as compared to an index like the PCE deflator that uses current weights, since the CPI assigns relatively large weights to high-inflation items like fuel oil and coffee based on their shares in consumer expenditure in the "good old days" of 1972-73, before the consumer reaction against their increase in price. The fixed weights used in the CPI would not be an important defect if all products changed in price by roughly the same amount over long periods of time. But the large variety of price changes between 1967 and 1980 displayed by the index numbers for individual items in Table II has made the fixed-weight problem a source of upward bias in the CPI during the past three years, as obsolete weights magnify the high inflation rates of products like fuel oil.

How much of an exaggeration in the CPI's measured inflation rate is caused by this so-called "substitution bias"? We do *not* learn the answer to this question by examining the massive differences between the CPI and PCE deflator displayed in Table I, since these are largely caused by other factors besides substitution. Instead, we can determine the contribution of consumer substitution away from high-inflation items by examining the effect of three different weighting schemes for the data used in the PCE deflator. The first is the scheme used in the published "implicit PCE deflator" itself. Table III shows an example of how the implicit PCE deflator would be calculated for a simple economy consisting only of spending on coffee and whiskey. Sections 1 and 2 exhibit prices and quantities in three different periods: the 1972 base period and two successive quarters in 1980. Section 3 multiplies price times quantity in each period to obtain actual expenditures. Section 4 then computes "real" expenditures in constant 1972 prices by multiplying the *actual* quantities purchased in each period by the constant prices of 1972.

The PCE deflator is simply defined as the ratio of actual expenditures to real expenditures, and this is written in section 5, along with the percentage change between periods. This extreme example reveals a defect of the PCE deflator, which uses weights that shift each period. The alteration in weights in successive periods causes

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TABLE III. *Methods of Calculating Price Indexes (for a Hypothetical Economy)**

	1972	1980 First Quarter	1980 Second Quarter
THE HYPOTHETICAL ECONOMY			
1. Prices			
Coffee per pound	$ 1	$ 4	$ 5
Whiskey per bottle	$ 5	$ 5	$ 5
2. Units Sold			
Pounds of Coffee	5	3	2
Bottles of Whiskey	1	2	3
3. Actual Expenditures			
Coffee	$ 5	$12	$10
Whiskey	$ 5	$10	$15
Total	$10	$22	$25
4. Real Expenditures in 1972 prices			
Coffee	$ 5	$ 3	$ 2
Whiskey	$ 5	$10	$15
Total	$10	$13	$17
THE EFFECTS ACCORDING TO THREE INDEXES			
5. Implicit PCE Deflator	100	169	147
(percentage change)		69.0%	-13.0%
6. Chain Index of 1980 change		—	11.7%
7. 1972 Fixed-weight Index	100	250	300
(percentage-change)		150.0%	20.0%

Notes: The implicit PCE deflator in section 5 is 100 times the ratio of total actual expenditures (section 3) to real expenditures (section 4).

The Chain Index in section 6 multiplies the price change for the second quarter of 1980 for each item (25 percent for coffee, zero for whiskey) by the average expenditure share of each product in *both* quarters of 1980 (22/47 and 25/47, respectively).

The Fixed-weight Index in line 7 multiplies the level of the item index for each period (100, 400, and 500 for coffee; 100 each period for whiskey) by that item's share in 1972 expenditures (50 percent for each product in this case).

the deflator to mix up the measurement of price changes with the effect of shifting weights. Thus, in the second quarter of 1980 the price of coffee increases by 25 percent, and the price of whiskey stays constant, but the PCE deflator registers a 13 percent *decline* in spite of the fact that no single price has dropped! Why? Expenditures in that quarter have shifted toward whiskey, which has had no price increase at all since the base year of 1972; thus the higher weight increases the influence of whiskey's *cumulative* absence of price change since 1972, which has nothing to do with actual inflation in 1980.[3]

How can we obtain the advantage of the up-to-date weights used

[3] If the same example were recalculated for a deflator using a base of 1980, second quarter (rather than 1972), the result would be an increase in the deflator of 14 percent rather than a decline of 13 percent.

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in the PCE deflator without the deflator's disadvantage of mixing together price changes and weight changes? This is accomplished by the "chain index," which is calculated by averaging together the *changes* in individual prices between periods rather than by computing an index *level* as in the case of the implicit deflator. These individual price changes are weighted by the average share of expenditures of each category in the two adjacent quarters taken together. In our example the increase in the chain index is 11.7 percent (shown in section 6), which makes intuitive sense as an average of the 25 percent increase in the price of coffee and the zero percent increase in the price of whiskey. (Since the share of expenditures on constant-price whiskey is a bit more than half in the two quarters, \$25/\$47, the chain index comes out showing a bit less of an increase than a simple unweighted average of 25 and zero).

Finally, the third alternative is to combine the coffee and whiskey prices with fixed 1972 expenditure weights. This creates an index analogous to the CPI. As shown in section 7, the fixed-weight index yields a 20 percent price increase for the second quarter of 1980, reflecting the higher weight of coffee in 1972 spending patterns. In this extreme case the bias in the fixed-weight index stemming from consumer substitution is represented by the difference between the 20 percent increase in that index compared to the 11.7 percent increase in the chain index.

While real-world price changes vary all over the map, the relatively large share in spending of items experiencing roughly average price increases makes the problem of consumer substitution in the actual CPI less important than in our extreme example. This is shown in Table IV, which displays an array of price change indexes, ranging in order from the implicit PCE deflator in section 1 to the CPI itself in section 5. The five indexes here allow us to decompose the difference between the implicit PCE deflator and the CPI into three main factors. The chain index in section 2 differs from the implicit deflator in section 1 by eliminating the undesirable impact of changing weights, thus the difference between section 2 and section 1 shows the modest quantitative impact of shifting weights. Next, section 3 lists the PCE deflator recalculated with fixed 1972 weights. The difference between this fixed-weight version of the PCE deflator and the chain index in the section above shows the effect of consumer substitution away from items with rapidly rising prices. The difference is negligible in 1977 and 1978 but became magnified in 1979 and 1980, largely due to the overweighting of energy prices in the fixed-weight index. Nevertheless,

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TABLE IV. *Five Measures of Inflation, 1977-80*[a]

	LATE '76-LATE '77	LATE '77-LATE '78	LATE '78-LATE '79	LATE '79-MID '80
1. PCE deflator	5.6%	7.4%	9.9%	11.6%
2. PCE deflator with "chain weights"	6.0	7.8	10.3	11.9
3. PCE deflator with "fixed weights"	5.9	7.9	10.7	12.4
4. CPI with PCE treatment of home ownership	6.3	7.9	10.8	12.2
5. CPI	6.8	9.0	13.3	16.0

[a] Source: Alan S. Blinder, "The Consumer Price Index and the Measurement of Recent Inflation," *Brookings Papers on Economic Activity*, vol. 11 (1980, no. 2), Tables II, IV and VI.
Note: CPI figures are for December through December, or December through June in the last column. PCE deflator figures are for fourth quarter through fourth quarter, or fourth quarter through second quarter in the last column.

in the first half of 1980 shifting weights and the substitution effect together contributed only 0.8 out of the 4.4 percentage point difference between the Consumer Price Index and the implicit PCE deflator.

Accounting for home ownership

The bulk of the excessive inflation rate measured by the CPI can be explained by its bizarre treatment of home ownership. Section 4 displays a special version of the CPI that replaces the actual home ownership component by the PCE measure and weighting of home ownership cost. The difference between the actual CPI in section 5 and the special version in section 4 shows that the choice of home ownership treatment makes an enormous difference, a full 3.8 percentage points in the first half of 1980.

Far from being a source of higher prices, squeezed budgets, and falling living standards, most Americans have found home ownership to be a source of wealth creation and one of the few spots in the family budget that is largely insulated from inflation. The treatment of homeownership in the CPI makes the fatal error of treating the whole population as if it were in the predicament of a newlywed couple buying its first house. This unlucky pair, late arrivals on the housing inflation merry-go-round, over the past several years has indeed faced a substantial increase in the monthly payment required to own its first house. But the vast majority of home owners has been protected from these higher costs. Increases in home purchase prices for existing home owners are a source of higher wealth, and "leverage" (the small initial share of their down-payment equity) makes the value of their equity increase by a multiple of the per-

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centage annual increase in house prices. Because income is properly defined as consumption plus the change in one's wealth, higher home prices by this definition also raise individual incomes. Increases in mortgage interest rates do not represent a higher cost for holders of existing mortgages, since most of these were negotiated at fixed interest rates. The monthly payment to the local savings bank is the same today as it was in the month of the first payment when the house was purchased two or five or fifteen years ago, and thus is a steadily falling proportion of annual earnings that allows the paycheck to be diverted to other needs. Home ownership has been a blessing—a source of wealth and six-figure balance sheets for many Americans—rather than the curse that the CPI's treatment would imply.

In Table V the housing component of the PCE deflator is compared with the various parts of the rent and home ownership component of the CPI. It is evident that the difference between the PCE and CPI treatments involves both the weights and the actual price increases registered by the individual components. The housing component represents 17.4 percent of the weight in the PCE deflator,

TABLE V. *Rent and Home Ownership Costs: CPI Weights and Price Increases**

ITEM	WEIGHT IN TOTAL INDEX, DECEMBER 1979 (PERCENT)	ANNUAL RATE OF CHANGE SEPTEMBER 1979-SEPTEMBER 1980 (PERCENT)
A. PCE Deflator Housing Component	17.4%	9.0%
B. CPI Components		
1. Residential Rent	5.3	9.0
2. Home Ownership	24.9	16.8
Home purchase	10.4	13.8
Contractual mortgage interest cost	8.7	21.8
Property taxes	1.7	3.5
Property insurance	0.6	13.6
Maintenance and repairs	3.4	9.0

* Sources: CPI: Same as Table II. PCE Deflator: *Survey of Current Business*, October 1980. PCE data refer to the quarter in which the indicated month occurred.

as contrasted with the 30.2 percent weight for rent and home ownership together in the CPI. The increase in the PCE component in the year to September 1980 was only 9.0 percent, as compared to a weighted average of 15.4 percent for rent and home ownership together in the CPI. There are numerous weak points, both major and minor, in the CPI treatment of housing. The most important

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are (1) the overweighting of the home-purchase and mortgage-interest-rate components, (2) the treatment of existing mortage contracts as involving variable rather than fixed rates, and (3) the failure to subtract from the higher home prices and mortage rate the *benefits* that consumers receive from interest tax deductions and from the capital gains due to higher house prices.

1. *Overweighting of home purchase prices and mortgage interest rates.* Table V shows that the weight attached to mortgage interest is almost as large as that attached to home purchase. The CPI makes the incredible error of treating home purchase and mortgage interest payments as separate unrelated transactions; it counts the house price once as the weight for home price changes and then counts most of it *again* as the weight for changes in mortgage interest rates. This double-counting can be appreciated in an example involving a new home purchased for $40,000 in 1972, financed by a 20 percent down payment ($8,000) and a twenty-five-year $32,000 mortgage taken out at a typical 1972 interest rate of 7.5 percent.[4] The BLS procedure computes the weight for the purchase price component from the 1972-73 consumer expenditure survey based on purchases of newly constructed houses; if every survey respondent had annual consumption expenditures of $20,000, and 5 percent of them purchased a new $40,000 house, this would yield a weight for home purchase of 10 percent. But that is not all. Fully half of the mortgage payments over the 25 year term ($26,429, in this case) is included as an *additional* expenditure, so that mortgage interest costs receive a weight of 6.6 percent in this example. A minimum requirement for consistency in the CPI should be that the weight on housing reflects the amount actually spent—$40,000 in this case. People do not buy houses and mortgages separately; they obtain mortgages so that they do not actually have to lay down $40,000 in cash!

2. *Assumption of variable rates on all existing contracts.* The CPI does not describe the housing-cost experience of actual U. S. homeowners but rather of a fictitious society in which the interest rate on all outstanding mortgages is renegotiated every month. Imagine that the average mortgage lasts 10 years, and that the mortgage rate has risen in the past decade from 5 to 15 percent at a pace of exactly one-twelfth of a percentage point every month. Then the average rate paid on outstanding contracts would be 10 percent. Now imagine that on January 1, 1981, the rate on mortgage closings suddenly jumps from 15 to 17 percent. The CPI uses the mortgage

[4] This example is taken from the article by Alan Blinder cited in the note to Table IV.

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closing rate for the first five days of the previous month, and so in this example the mortgage component of the February 1981 CPI would show an increase of 13.3 percent. If all other items were increasing at an average of 1 percent per month, or 12.7 percent per year, this treatment of the mortgage interest rate would be enough to cause scare headlines, since the annual rate of increase of the all-items CPI in February would be 27.9 *percent*. But in truth, since a single month is initially involved and the average mortgage lasts for ten years, less than one percent of total mortgage payments are affected by the new rate. The average mortgage interest rate paid would change from 10.0 to 10.1 percent, for an increase of just one percent, exactly the same as the assumed increase in all other items. Scare headlines would be avoided, and the Febraury announcement of the CPI would report an annual rate of increase of 12.7 rather than 27.9 percent.

3. *Use of actual rather than real after-tax interest rate.* Does a higher mortgage interest rate actually raise the true cost of borrowing, as assumed by the CPI? Not necessarily, because borrowing cost consists of the actual interest rate paid, less the percentage increase in the price of the item purchased with the borrowed funds, less any tax deductions for interest paid. Sensible home owners and business borrowers know that a 15 percent interest rate is not a suffocating burden if borrowing allows them to buy cheap now and sell dear later. In fact it is easy to show how an increase over a decade from a 5 to 15 percent mortgage rate actually could have *reduced* real borrowing costs. Imagine that over the same period the inflation increased from zero to 10 percent, and that the income tax rate remained fixed at 20 percent. Since all interest paid (not just the net-of-inflation part) is deductible, the *real* cost of borrowing can decline if inflation is high enough.

The home-ownership blunder, and how to right it

There are no defenders of the present treatment of home ownership costs in the CPI, which has remained essentially unchanged since 1953.[5] Yet year after year between 1977 and 1980 its damage

[5] In January 1981 the BLS announced that "the much-criticized home-purchase component of the consumer price index will be deleted and will probably be replaced with an estimate for rents" (*New York Times*, January 29, 1981, p. 1). This announcement thus endorses the conclusion of this section (written before the announcement) that the "rental equivalence" method should have been used all along. Unfortunately, the change will not be made until 1985, so this section of the text remains relevant for the first half of this decade.

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grew as escalated union wages, government transfer payments, and the government deficit were pushed up. During the deliberations that led to the 1978 CPI revision, there was unanimous staff support in BLS for killing the present procedure. Yet the staff was overruled by the late Julius Shiskin, then Commissioner, who wrote that "I have decided that the present treatment will be continued... This decision is based on the fact that there is widespread disagreement among the business, labor, and Government advisers to the Bureau of Labor Statistics concerning the approaches to the cost of shelter proposal by the Office of Prices and Living Conditions."[6] One interpretation of this remark is that the last refuge of a bureaucrat faced with controversy is to retain the status quo. Another possibility is that the key word in Shiskin's letter is "labor," and that labor unions were unwilling to accept any tampering with the CPI that might jeopardize the privileged position that they had enjoyed during the 1973-74 high-inflation period thanks to their CPI-escalated contracts. In light of the fact that the Carter Administration bowed to union pressure on the issue of the minimum wage, it is not implausible that union pressure was behind Shiskin's decision. In any case there is no doubt that labor unions have been among the main beneficiaries of his vote for the status quo.

The two main candidates suggested by economists to replace the present treatment are the same as those proposed by the BLS staff during the 1972-77 deliberations on the CPI revision—the "user cost" and "rental equivalence" approaches. In fact, in an end run around its own index, the BLS now publishes five alternative versions of the CPI using different measures of home ownership cost. Of the five alternatives, four represent different ways of treating user-cost, and the fifth is based on the rental equivalence method. (It is the fifth alternative that is displayed on line 4 of Table IV.)

1. *The user-cost of housing.* Economists love to dazzle their students with "user cost" formulas of the type developed in the early 1960's by Harvard's Dale Jorgenson for the purpose of explaining business investment behavior. The aim is to come up with a figure to represent the amount for which a capital good could be rented. Unlike the present CPI approach, which is based on the current price paid for new houses by the small fraction of people who actually purchase them in a given year, the user-cost approach measures the current annual capital and operating cost of home ownership for *everyone.* User-cost formulas typically sum up the annual mortgage interest

[6] Letter from Julius Shiskin to Lyle Gramley of the Council of Economic Advisers, April 15, 1977.

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costs, plus the interest that would have been earned on the down payment if it had been invested in a financial asset, plus operating costs like taxes, insurance, and repairs, minus capital gains due to higher house prices, and minus tax deductions made possible by the payment of mortgage interest.

The basic problem with the user-cost approach is that there are several alternative ways of measuring the ingredients in the formula, especially interest rates, tax rates, and capital gains. Are capital gains to be counted as those expected when the mortgage was taken out or those actually realized? Is the mortgage interest rate to be the current rate or an average of past rates? How is the personal tax rate relevant for mortgage interest deductions to be determined? The BLS provides four different measures of user cost to provide a menu of outcomes, and all of them display much more volatility than actual rent. If an economist's approximation of how much a house should rent for does not behave at all like actual observed rents, then that ought to be telling him something.

2. *Rental equivalence.* The idea of rental equivalence is simple and in fact is already used in the PCE deflator: Simply assume that the cost of home ownership moves in proportion to actual rents as measured by the CPI rent index, and apply a weight based on the estimated rental value of owner-occupied homes. Residential rent has increased more slowly than the average for other CPI items, and much more slowly than the present CPI home ownership component. Objections to the rental equivalence approach center around the fact that most single-family homes are not rented, and so the rental information collected by the CPI may not reflect hypothetical rents of single-family homes. Nevertheless landlords face the same interest costs as home owners and enjoy roughly the same tax deductions and capital gains. The fact that actual rents exhibit more gradual changes than hypothetical user-cost measures does not necessarily imply an error but rather reflects the tendency for prices of physical goods and services to adjust more slowly to changing conditions than prices of financial assets. Just as a company's stock price typically jumps around much more than the prices of the things it sells, so housing prices and interest rates jump around more than the rental value of houses. This makes sense in the case of rent, since changes in current mortgage interest rates do not actually affect landlords who have long-term fixed-rate mortgages, and changes in current capital gains have no impact (except on paper wealth) if the building is going to be held over a long period rather than sold at today's price.

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Since the rental equivalence method is appealing, why not just adopt it? Use of rent data for the CPI home ownership component would justify expanding the sample of rent information to include more single-family houses. I suspect that much of the resistance to the rent approach stems from a belief that rent data are tainted, since rents have been rising so much less rapidly than the cost of construction (95 percent vs. 192 percent, respectively, between 1967 and 1980). But there is an economic reason for this divergence. My parents recall renting a house in Berkeley, California, in 1938 for $65 per month that was also for sale at the same time for $7,500. The house now would sell for $250,000 but could not rent for $2,167 a month (an equivalent percentage of sale price). In fact, a rent below $1,000 would be typical for that kind of house in the current Berkeley rental market. Why? Landlords and home owners renting out their homes no longer have to recoup all of their cash mortgage interest and operating expenses from rent, since lightly taxed capital gains and tax deductions on mortgage interest now pay part of the bill. Thus the slow increase in rents is not a fiction, but reflects economic reality.

Accounting for changing quality

Up to this point all of the issues have involved differences between the CPI and PCE deflator. But now we turn to the question of the changing quality of products, where both indexes are on the same footing because they use the same underlying price figures obtained by the BLS data collectors. When a new model of a product is introduced that contains one or more extra features, part of its higher price may be explained by its higher quality. The gradual acquisition of higher quality goods has been an important source of a rising standard of living for Americans, and so we must make sure that adequate adjustments are made for the fraction of price increases that actually represent higher quality.

Quality change poses a problem for the CPI, which attempts to measure changes in the price of goods and services in a fixed market basket. The apparently straightforward task of collecting information on the price of a fixed set of goods is continually complicated by the fact that some goods go out of existence to be replaced by new models or new products. The issue of quality adjustments involves precisely how and when the new models are introduced into the overall index.

Over its history the CPI market basket has continually changed,

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providing an interesting—though usually out-of-date—commentary on social history. From 1918 to 1940, the CPI index that covered shaving was the price of a barber shave, and then switched in 1940 to the safety-razor blade, despite the fact that safety razors had largely replaced barber shaves in the 1920's. From 1940 to 1952 the index item was the blade, joined from 1952 to 1964 by shaving cream, followed from 1964 to 1977 by the shaving cream alone, followed since 1977 by a combination of dental and shaving toiletry products. Since 1964 there has been no blade in the CPI, and thus no consideration of the new world opened up for most men by the invention of the double-edged blade in the early 1970's.

Other products have come and gone as well. In 1940 the index dropped not only barbershop shaves, but also high button shoes, men's nightshirts, and girls' cotton bloomers. The 1953 revision eliminated salt pork and laundry bar soap but added televisions, frozen foods, Coca-Cola, and whiskey. Pajamas, which had replaced nightshirts in 1940, themselves disappeared in 1964, leaving only sheets and blankets to cover the sleeping American male. Appendectomies also disappeared in 1964, the year funeral services were added. Among the new product categories introduced in the 1978 revision were pet supplies and expenses, indoor sports equipment, tranquilizers, and electronic pocket calculators.

How are new models and products introduced into the CPI? There are three main methods.

1. *Direct comparison.* When a quality change is considered to be "small," in the judgment of BLS staff members, it is neglected. All of the observed price change would be recorded as a change in the CPI item index, with no adjustment for quality change. If we assume that most model change-overs involve quality improvements, the direct comparison method imparts an upward bias to the CPI—that is, causes it to register too much inflation.

2. *Linking.* When the BLS staff members assess the quality change as too important to be ignored, then they introduce a linking procedure. This effectively imputes to the product whose quality changed the price movement of similar goods whose quality did not change. Let us imagine that an old-fashioned cotton sheet selling for $5.00 is replaced by a polyester permanent press sheet selling for $8.00 which lasts twice as long. The CPI linking procedure pays no attention to increased durability, but simply replaces the observed price increase by the actual price increase of other unchanged items in the same "household linens category."

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3. *Cost data.* In some cases the BLS obtains the cost of the quality change directly from the manufacturer. First, staff members must determine whether a change claimed by the manufacturer to improve quality actually does so. The criterion for the judgment is whether the change improves the value of the product for the user. (Several years ago the BLS would not include a change by an auto manufacturer from a dial to digital clock on the grounds that this change did not increase the "user value" of the automobile.) The value of those quality changes that are not disallowed is based on the manufacturer's estimate of the extra cost involved in making the higher-quality item. This procedure is obviously subject to the flaw that the manufacturer may overstate the cost of the quality improvement in order to disguise a portion of actual price increases, particularly in a period in which government price controls or guidelines are attempting to hold a lid on prices. This source of error would tend to bias the CPI downward and cause it to register too little inflation.

The automobile is the only product which is given the full-blown cost-adjustment treatment. Every September several BLS officials travel to Detroit to consult with the major manufacturers in order to identify those specification changes on new models for which adjustments must be made. If a producer has introduced a new, heavier bumper, whether on its own initiative or to comply with federal safety regulations, the firm is asked to supply an estimate of the difference in the cost of producing the new bumper as compared to the old bumper. This difference in cost is then subtracted from the reported price increase of the new model automobile.

Because the BLS devotes so much more attention to automobiles than to other products, there is a chance that the recorded differences between the inflation rates registered by autos and other products may reflect differing quality-adjustment procedures rather than a true difference in price behavior. For instance, between 1972 and 1978 the measured price of automobiles went up 27 percent, but the price indexes for other types of moving mechanical equipment like tractors and construction machinery (part of the Producers' Price Index compiled by the BLS) increased by about 80 percent.

Product price cycles and increased performance

The typical product, whether automobiles in the 1920's, TV sets in the 1950's, or electronic calculators in the 1970's, experiences after its invention an initial period of declining price, as its man-

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ufacturers spread the fixed cost of its development over more and more units sold. Then, as a product becomes "mature," there is less opportunity for efficiency gains to cancel out increased wages and other costs, so prices begin to rise. Three aspects of CPI procedures cause it to understate quality improvements and to overstate price change. First, the use of obsolete weights from decade-old expenditure surveys tends to place too little weight on modern products where price increases are relatively slow—this "consumer substitution" problem was examined above. Second, new models and products are typically introduced into the index much later than the date when their sales volume becomes important. And finally, the linking procedure, by far the most common quality-adjustment technique used by the BLS, tends both to treat new products as if they were mature products and to ignore performance improvements.

The long intervals between CPI revisions, and the officially sanctioned tendency for data collectors to cling to existing models until they disappear from the marketplace, imply that items with declining prices are typically absent from the index. Albert Rees, who in 1960 performed a fascinating comparison of BLS item indexes with price data for the same products from mail-order catalogues, recalls with amusement a visit with a store owner to identify the particular model cooking pot that was then being priced by a BLS field representative. "Oh, you mean this old model up here on the top shelf? We never sell these any more," answered the store owner, "but that BLS field representative keeps asking us for its price."

More important are the new products that enter the CPI late in the product price cycle. The United States became a motorized society in the 1920's and 1930's, when there was an enormous improvement in the performance of automobiles along with a decline in their price—but the automobile was not included in the CPI until 1940. Penicillin entered the CPI in 1951, after it had already experienced a 99 percent decline from its initial price. The pocket calculator entered the CPI in 1978, after it had declined in price about 90 percent from early 1970–71 models and about 98 percent from the price of a comparable electromechanical desk calculator of the 1960's.

The linking procedure misses quality improvements for two reasons. First, as in the cotton sheet example, the price change is taken to be identical to other items in the sample product group that remain unchanged in quality. But these are likely to be mature products experiencing price increases, whereas the item that is improved in quality is more likely to be in the early stage of its product cycle.

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Perhaps more important, the CPI ignores changes in performance that tend to accompany model changes. In the cotton sheet example, the new sheet lasts twice as long. Since consumers presumably are buying years of service from long-lasting items like sheets, the CPI treatment ignores the lower price of a "sheet-year," since the service life in the example is assumed to double while the price only increases by 60 percent. (It is a sign of the times that many goods like sheets and draperies are officially classified as "nondurable" yet actually last longer than many "durable" goods.)

The most striking fact about the treatment of quality change in the CPI is that it is inconsistent with its own stated objective, which is to adjust for changes in quality when they improve the value of a product to the user. In the sheet example and in many others there is no attempt to measure the change in product performance. Consumers value sheet-years, motor-oil-miles, and tire-miles, rather than sheets, quarts of motor oil, and tires independent of their durability. F. Lee Moore has calculated that between 1935 and 1978 the price of tires per mile of tire-life declined by 9 percent, in contrast to an increase in the CPI tire index of 140 percent. Over the same period, the price of motor oil per mile declined by 52 percent as compared to an increase in the CPI of 234 percent.[7] There are other examples of improved performance that are missed by the CPI's attention to "price per item" instead of "price per service desired by the user." Among these are the increased service life of light bulbs, spark plugs, and appliances.

Our previous discussion of the user cost of housing can be applied more broadly to any good which lasts a significant length of time. Consumers care about the total annual operating costs of automobiles and appliances having a given level of performance, not purchase price alone. Auto manufacturers have diverted development efforts from the old concentration on styling and tailfins to a new obsession with increased fuel efficiency. Yet there is no procedure in the CPI to adjust for improvements in automobile fuel efficiency.[8] A lab at M.I.T. several years ago studied the repair records of appliances and found that the frequency of refrigerator repairs had dropped by a factor of two, and TV repairs by a factor of four, between the mid 1950's and early 1970's. In a study that makes al-

[7] F. Lee Moore, "Index Mischief: Price versus Cost," *Electric Perspectives*, 1978, no. 5, pp. 8-27.

[8] In the case of automobiles the BLS has measured the price change on new downsized models as equal to models that are unchanged in size. This is the correct procedure if the fuel savings on the new models just balance the consumer value of the loss in comfort and performance, but not otherwise.

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lowances for improved electricity efficiency and other characteristics, I have estimated that the quality-adjusted prices of refrigerators, washing machines, and air conditioners declined at about twice the rate registered by the CPI between 1950 and the mid 1960's.

Performance improvements are not just limited to goods, but also extend to services. That vanishing breed, the domestic household worker, now accomplishes more per hour with modern appliances and fabrics than her 1925 counterpart, yet her "price" is a straight hourly wage. The apparently outrageous increases in hospital room charges exhibited in Table II disguise improvements in the quality of medical care provided to the typical patient, and today's guest at a Holiday Inn or other medium-priced hotel enjoys telephone and television service that was unavailable to his luxury-hotel counterpart of 50 years ago. An airline passenger mile is a more comfortable, faster, and safer commodity than it was in 1955, and yet the CPI prices a homogeneous passenger mile. There is no doubt that train service has deteriorated, but this is of minor importance in an index that keeps its weights up to date.

Of all products in the U.S. economy, the one displaying the fastest rate of price *decline* throughout the entire postwar era has been the electronic computer. Yet the U.S. government does not compile a price index for computers, so that the output and productivity gains achieved by companies like IBM and the office machinery industry as a whole are not captured by aggregate indexes of output and productivity. This does not involve the CPI directly, because until recently few computers were sold directly to consumers. Government officials are quick to admit that IBM's output and productivity achievements are missed in official data in the year the computers are manufactured, but they claim that the higher efficiency made possible by computers is accurately captured when they are used in subsequent years in the production of consumer goods. This position is partly true, since the use of computers to replace workers in consumer-goods factories has contributed to measured productivity advances.

Yet for a wide variety of consumer services the CPI is not capturing the improvements that the computer has provided. On many airlines computers make possible pre-reserved seats and one-stop check-in, and airline managements were willing to invest in computerized equipment in the belief that consumers would value the extra services provided. Yet the CPI does not value the extra services, treats an airline passenger-mile as an unchanged commodity, and leaves the impression in our national data that the investment

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in the extra computer has produced nothing. The same point applies to 24-hour money machines provided on street corners by banks, and other financial services. It is doubtful that the worldwide convenience made possible by major credit cards would have occurred without the computer, yet the CPI ignores the saving of time and fees by consumers who no longer have to purchase so many travelers checks and letters of credit.

Even the much-criticized U.S. government has been a source of an unmeasured improvement in our standard of living. For 25 years we paid an increased gasoline excise tax, treated by the CPI as an increase in the price of gasoline, in order to finance construction of the interstate highway system. Automobile travel is now faster and safer, but this government activity is treated as having only costs, with no benefits.

The interstate highway example is interesting because it conflicts with a controversial decision that treats anti-pollution and safety devices on automobiles in the CPI as an increase in quality rather than an increase in price. Government environmental and safety legislation is treated as having wisely balanced the cost of the devices against the benefits received by the nation as a whole in reduced pollution and greater safety, in contrast to the interstate highway case where benefits are ignored. If government regulatory efforts, like most economic activities, are subject to increasing costs and diminishing benefits as more and more of the pollution is eliminated, then the CPI treatment may have been conservative a decade ago, in the early stages of regulation, but overly generous recently. The growing consensus that many recent government regulations do not provide benefits to balance their costs would imply that, at least for this one reason, the Consumer Price Index understates inflation.

As we plunge further into the murky depths of index-making, at some point we leave the realm of the statistician and enter the realm of the philosopher. Where do we draw the line between a new model of an old product and an entirely new product? The CPI states that the price of admission to movies increased 330 percent between 1948 and 1978. Yet the invention of television allowed the price of two hours of movie-like entertainment to decline substantially, even if we cancel out the agony of commercials against the saving in baby sitters, parking fees, and transportation expenses. A long list of such broadly conceived substitutions could be compiled—permanent press clothing for commercial laundries, phone for mail, appliances for domestic servants.

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A better index

The CPI is a severely flawed index, as shown both by our comparison with the PCE deflator and our examination of the pervasive nature of unmeasured quality change. Yet it is striking that the BLS spent $50 million during 1972-77 to revise the CPI without curing any of its major defects. In a six-month overlap period in early 1978, the expensively revised "new CPI" registered an increase that differed from the "old CPI" by only 0.1 percentage point.

It seems clear in retrospect that the BLS spent its revision money on the wrong things, improving the number of outlets covered or the number of consumers surveyed rather than investing money in more rent data on single-family homes or on performance data for newly introduced models and products. What the CPI needs, in addition to the use of more up-to-date weights and a rental equivalence approach to the measurement of home ownership costs, is a vastly improved effort to measure the improved performance and efficiency of consumer goods and services, as well as the occasional decline in product quality. Much can be done with existing performance and efficiency data available from the published test reports of Consumers Union and other organizations, and in selective cases the BLS could institute its own testing program or contract for tests from private organizations.

It is now 20 years since a committee headed by George Stigler recommended many of the same improvements in the CPI. It is discouraging that so little has been done by so many for so long. BLS officials tend to reject suggestions for a more imaginative approach to quality measurement as too "subjective," when what is needed is a more frequent application of simple common sense. In the now-classic words of Martin Bronfenbrenner, addressed to the Stigler Committee in 1960, "it is better to be imprecisely right than precisely wrong." And in an era in which each change in the CPI sets off a wave of redistributional adjustments, that observation is precisely right.

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CURRENT READING

Back to Middletown

In 1924 and again in 1935 Robert and Helen Lynd conducted a series of surveys that focused on religious institutions and beliefs in a small midwestern community, which they called *Middletown*. The Lynds had expected to find that their people were becoming increasingly and pervasively less religious, but instead they discovered a variety of shifts back and forth with no clear trend either way.

Theodore Caplow, Howard M. Bahr, and Bruce A. Chadwick in 1977 took on the task of updating the Lynd project. Their findings, published in the January/February 1981 issue of *Society* magazine under the title "Piety in Middletown," show a marked increase in religious devotion.

> Between 1977 and 1979, 13 separate surveys were conducted in the course of the Middletown III project—8 by written questionnaire, 5 by interview. Most of them involved random samples of between 200 and 500 Middletown adults, but a few were larger or smaller. This article draws principally upon the 1977 Housewives' Survey, a careful replication of a survey conducted by the Lynds in 1924, in which 333 respondents were interviewed; the 1978 Religious Attitudes and Practices Survey, a questionnaire survey with a sample of 230 adults of both sexes; the 1977 High School Attitudes Survey, in which over 3500 students in Middletown's public high schools (essentially the entire population) were administered a two-part questionnaire about their attitudes and activities, repeating most of a questionnaire the Lynds administered to a comparable population in 1924; and a 1978 questionnaire survey of 112 Middletown ministers.
>
> Although they did not resolve their doubts about the trend in religion, the Lynds left us a magnificent cache of empirical data about religious beliefs and practices two generations ago. Putting that information together with the information we gathered in the 1970's by putting the same questions to similar samples of Middletown's population, we find that:
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> —Church attendance in Middletown increased dramatically between 1924 and 1978; about half of all married couples attended church regularly in 1978, compared to a quarter in 1924. Only a sixth reported no church attendance at all in 1978, compared to more than half in 1924.

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—The number of church buildings increased correspondingly. There was one church for every 870 residents in 1924; by 1978, there was one for every 538.

—Tithing—"a tenth of one's substance to the Lord"—was virtually unknown in 1924; the Lynds discovered only a single case among the hundred families whose budgets they recorded. In 1978, nearly a third of the active church members in our sample gave that much or more.

—In 1924, working-class people were more fervent in religion than business-class people. By 1978, the difference had disappeared.

—Middletown residents are much more tolerant about religion than they used to be. The Lynds asked the entire high-school population if they agreed with the statement that "Christianity is the one true religion and all people should be converted to it." Ninety-four percent did agree. When we presented the same statement to the comparable population in 1977, only 38 percent agreed. The correlation formerly observed between church attendance and bigotry has reversed itself. Religious activism is now moderately correlated with racial and ethnic tolerance.

The acceptance of the fundamental tenets of Christianity by churchgoers in Middletown is extremely high; 84 percent say they have no doubts about God's existence; 86 percent have no doubts about the divinity of Jesus; 97 percent are persuaded that the Bible is inspired. The level of belief among those who stay away from church is impressive also: 40 percent of them have no doubts about the existence of God; 37 percent have no doubts about the divinity of Jesus; 72 percent accept the Bible as inspired. Ninety-one percent of the churchgoers and 40 percent of those who stay away pray often when alone, and nearly all of them compose their own prayers in addition to using those they have been taught. Religious fasting and meditation are so common in Middletown as to pass unnoticed. . . .

The Lynds carefully refrained from claiming that Middletown was typical of the whole United States, or even of the Midwest, and we have followed their good example here as in other matters. The place was selected for study because of what it lacked: no dominant corporation, no important college, no conspicuous minorities, no special problems. Since then, the local teachers' college has grown into a large state university and the proportions of blacks and Catholics have doubled, but Middletown is still overwhelmingly white, native-born, and Protestant. Nearly every Protestant denomination is represented, with the Methodists most numerous. Are we then dealing with an enclave that has somehow preserved traditional religious values in isolation from the surrounding world? The available data say, No. Compared to the whole country, as described by innumerable social surveys, Middletown seems to be quite average in its religious beliefs and practices.

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